Austria	Sch24	Indonesia	Rp3100	Pakistan	Rs35
Bahrain	Din0.700	Iran	Rls210	Philippines	Peso40
Belgium	BFr55	Israel	Shk3.50	Poland	Zl 9,000
Cyprus	C£0.90	Italy	L2000	Portugal	Es185
Denmark	DKr12.00	Jordan	JD1	Qatar	QR9.50
Egypt	E£3.25	Kuwait	Fils.500	S.Arabia	SR7.00
Finland	FM8.50	Lebanon	L£400.00	Singapore	S$4.10
France	FFr7.50	Lux	LFr35	Spain	Pta165
Germany	DM2.60	Malaysia	M$4.25	Sweden	SKr12
Greece	Dr180	Morocco	MDh8.00	Switz	SFr2.50
Hong Kong	HK$12	Neth	Fl 3.25	Thailand	Bht50
Hungary	Ft107	Nigeria	Naira10	Tunisia	Din0.800
Iceland	IKr160	Norway	NKr12.00	Turkey	L2000
India	Rs15	Oman	OR1	UAE	Dh7.00

EUROPE'S BUSINESS NEWSPAPER

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Φ D 8523A

ARGENTINA
Getting serious about the economy
Page 8

Bank of England economist is first top recruit to EBRD

By Peter Norman, Economics Correspondent, in London

MR John Flemming, the Bank of England's chief economist, yesterday became the first high-level recruit to the European Bank for Reconstruction and Development.

It was also understood that Mr Ernest Stern, a World Bank senior vice president, would join the EBRD as first vice president, becoming deputy to Mr Jacques Attali, the bank's president-designate, and taking charge of country strategy and lending.

The bank is being set up with headquarters in London by 40 industrialised and east European nations to support eastern Europe's transition to a market-based economy.

The decision by Mr Flemming, aged 49 and number four in the Bank of England's hierarchy, to join the EBRD as general counsel and chief economist could be a sign that the bank is overcoming teething troubles.

Mr Attali upset officials from several shareholder countries in July and was accused of trying to concentrate too much power into his own hands. There was concern then that his deputy had not been named.

A skeleton staff is wading through some 3,500 applications for the 500 jobs initially on offer at the bank – eventually, it will employ about 1,000 people.

About 10 applications are arriving each day, and Mr Attali is employing headhunters to seek out individuals with entrepreneurial and merchant banking skills to fill the EBRD's top ranks.

Other vice presidents will be put in charge of the EBRD's treasury and merchant banking operations.

Altogether the EBRD will have four or five vice presidents, one of whom will come from the east and central European countries among its shareholders.

The institution, which is being created to help the countries of eastern Europe develop into market based economies, is still operating in temporary offices in London's Broadgate complex.

Its staff of 30 to 40 has mainly been seconded on a temporary basis by some of the 40 industrialised and eastern European countries that set it up.

Though the bank has yet to be formally established, it has large-scale ambitions.

It sees itself fulfilling a catalytic role in integrating central and eastern Europe into the world economy and linking these areas to the present European Community to create a vast market of 700m people. It expects to have a future of perhaps 20 or 30 years.

Indicative of its pan-European ambitions is the way that it has taken to calling itself the "Bank of Europe" on some of its publicity material.

About one third of its activities will be those of a regional development bank and about two thirds, those of a merchant bank.

The bank has a mandate to develop the private sector and will be concerned with the development of democracy,
Continued on Page 22

Jacques Attali of the EBRD

Pirelli seeks takeover of fourth largest tyremaker

By Haig Simonian in Milan and Andrew Fisher in Frankfurt

PIRELLI of Italy yesterday signalled a further upheaval in the competitive world tyre market by announcing a plan to combine its tyre activities with those of Continental, the West German company, in what would amount to a back-door takeover of the German concern.

If successful, the deal would create the world's fourth biggest tyremaker. It would also strike a heavy blow to the practice adopted by many big German companies of restricting voting rights to preserve their independence.

Hanover-based Continental said tersely that it was studying Pirelli's proposal to see if it was in the interests of shareholders, employees, and customers.

Mr Horst Urban, Continental's chief executive, has made clear that he is determined the company should stay independent.

But Pirelli said its proposal to create a tyremaker with turnover of around DM13bn ($8.4bn) had the approval of shareholders owning the majority of Continental. Moreover, Pirelli itself now has 5 per cent of Continental's equity.

Nor is Pirelli's proposal expected to be opposed by Deutsche Bank, one of whose managing board members, Mr Ulrich Weiss, chairs Continental's supervisory board which met yesterday.

Mr Weiss, a fluent Italian speaker, is also the Deutsche Bank board member responsible for Italy.

Pirelli confirmed that it had made a detailed proposal to Continental last Saturday under which Pirelli would merge its tyre activities - last year floated off into Pirelli Tyre Holding - into those of the German group, leaving Pirelli with a controlling interest in the enlarged concern. Pirelli's main strategist in the deal is Mr Ludovico Grand.

Ludovico Grandi of Pirelli: the main strategist in the deal

Though still trailing Michelin of France, Goodyear of the US, and Japan's Bridgestone, the venture would have 16 per cent of the world market.

Continental is currently number four in the world tyre industry, with Pirelli in fifth place.

The deal would mark a further rationalisation of an industry which is suffering from over-capacity and falling demand. Tyre prices have come under severe pressure from cost-minded carmakers.

The German company's first half pre-tax profits slumped by 39 per cent to DM100m as the result of what it called a "price war" and it has indicated that a dividend cut is likely.

Yesterday, its shares fell by DM20 to DM265 reflecting the absence of a full bid after a long period of intermittent speculation. At this level, the company is valued at DM2.3bn.

Mr Michael Treichl, a managing director of Merrill Lynch, the US securities house, which owns under 1 per cent of Continental's shares, said a combination of the two companies' tyre interests would create an entity large enough to compete with the bigger groups.

Without the deal, he added, "Continental could face a very serious competitive threat."

By choosing to work through a group of allied shareholders - rather than mount a raid in the market - Pirelli should be able to get round restrictions on shareholders' voting rights.

In the circumstances, it is hard to see how Continental could use the 5 per cent curb to defend itself.

However, this remains as an obstacle to a full bid after the narrow failure of an attempt at last June's annual meeting to have the rule overturned.

Details of the shareholder group remain sketchy. Apart from Merrill Lynch, which is an adviser to Pirelli, a number of German, Italian and other foreign institutions have been gradually accumulating Continental shares in recent months.

Once the deal is completed, Pirelli, which instigated the transaction, said it would take majority ownership of the controlling stake in Continental currently held by the shareholders' group.

Pirelli, which claimed that its proposal represented an entirely "friendly" transaction, took pains to emphasise its readiness to discuss the proposal further with Continental.

Pirelli noted that all but certain key points remained negotiable.

Bidding for a heavier tread, Page 20; Lex, Page 22; Markets, Section II; Stock Markets, Back Page

Gorbachev urges vote on private ownership of land

By Quentin Peel in Moscow

PRESIDENT Mikhail Gorbachev yesterday called for a national referendum on whether to allow private ownership of land in the Soviet Union, while pledging his own firm support for radical economic reform.

His surprise initiative caused consternation among the strongest advocates of immediate action to promote all forms of private property, including Professor Stanislav Shatalin, author of the reform plans favoured by the Soviet leader.

Professor Shatalin warned that the referendum could further delay the process of breaking up the country's ossified bureaucracy, and launching a mass privatisation programme for state property.

However, Mr Gorbachev, clearly concerned at the continuing danger of a conservative backlash from the bureaucracy and the Communist Party over the hectic pace of reform, said the question of private land ownership "must be decided by the people, through a referendum."

He was opening a crucial debate in the Supreme Soviet to decide on the country's economic reform strategy between alternative plans drawn up by Professor Shatalin and by the Soviet government, headed by Mr Nikolai Ryzhkov. An amendment of the Shatalin plan, drafted by Professor Abel Aganbegyan, was formally endorsed by the president.

Political observers see Mr Gorbachev's move as an attempt to provide the clear popular commitment to reform and thus prevent recrimination from conservatives when the reform process causes inevitable hardship.

However, both Professor Shatalin and Mr Ivan Silayev, Russian Federation prime minister, who have already adopted his report, warned that a referendum would cause unacceptable delays.

The Shatalin report calls for the transition to a market economy in just 500 days, with curbs on state spending, an end to subsidies to state farms and factories, gradual price liberalisation, nationwide sales of housing and plots of land, and the privatisation programme. The first 100 days of emergency measures are supposed to start on October 1.

Professor Aganbegyan said the economic situation in the country was "catastrophic," and that declining oil production was causing an energy crisis at home and a squeeze on hard currency earnings.

Mr Gorbachev said he backed the drastic action proposed by Professor Shatalin. He rejected criticism that the plan "leads to capitalism," arguing that drastic stabilisation measures were needed because of "the obvious disintegration of the consumer market, the growth of the budget deficit and state debt, the disorganisation of monetary circulation, and the rampage of black marketeering and the shadow economy." However, Mr Gorbachev warned against forcing a new system on an unwilling people.

US tries to cash in on Soviet 'revolution,' Page 3; Food ultimatum for Gorbachev, Page 4

EC orders expulsion of all Iraqi military staff from embassies

By Robert Mauthner in London and David Buchan in Brussels

THE European Community yesterday ordered the expulsion of all military staff from Iraqi embassies in the 12 member countries in retaliation for incursions by Iraqi troops into EC diplomatic missions in Kuwait last Friday.

In moves which were co-ordinated, but not identical, against what they described as "new and very grave illegalities" committed by Iraqi troops, the Twelve also restricted the movements of Iraq's other diplomats in the EC. The decision was taken at a meeting of EC foreign ministers in Brussels.

Britain went further than most other states except for France, by ordering out of the country 31 Iraqis, including two military attaches, six support staff and 23 others, described as mainly students.

Mrs Margaret Thatcher, Britain's Prime Minister, said in Prague at the beginning of an official visit to Czechoslovakia that the decision was taken because of "the outrage of Iraqi troops going into the residences of certain members of the diplomatic service in Kuwait."

She was referring to incursions by the Iraqis into the French, Canadian, Dutch and Belgian diplomatic residences in Kuwait, when a French military attaché and three other French citizens were arrested and taken away to unknown destinations.

After official denials from Baghdad that troops had entered the missions in violation of the 1961 Vienna Convention, Iraqi authorities released the French attaché later on Friday.

In an unexpected move yesterday, three French men held at strategic sites in Iraq, together with the wife of one of them, were also freed and allowed to fly to Amman, the Jordanian capital.

Their release came after President Saddam Hussein of Iraq had agreed to allow old and sick French men to return to their country in response to an appeal by former Algerian President Ahmed Ben Bella, in Baghdad at the weekend.

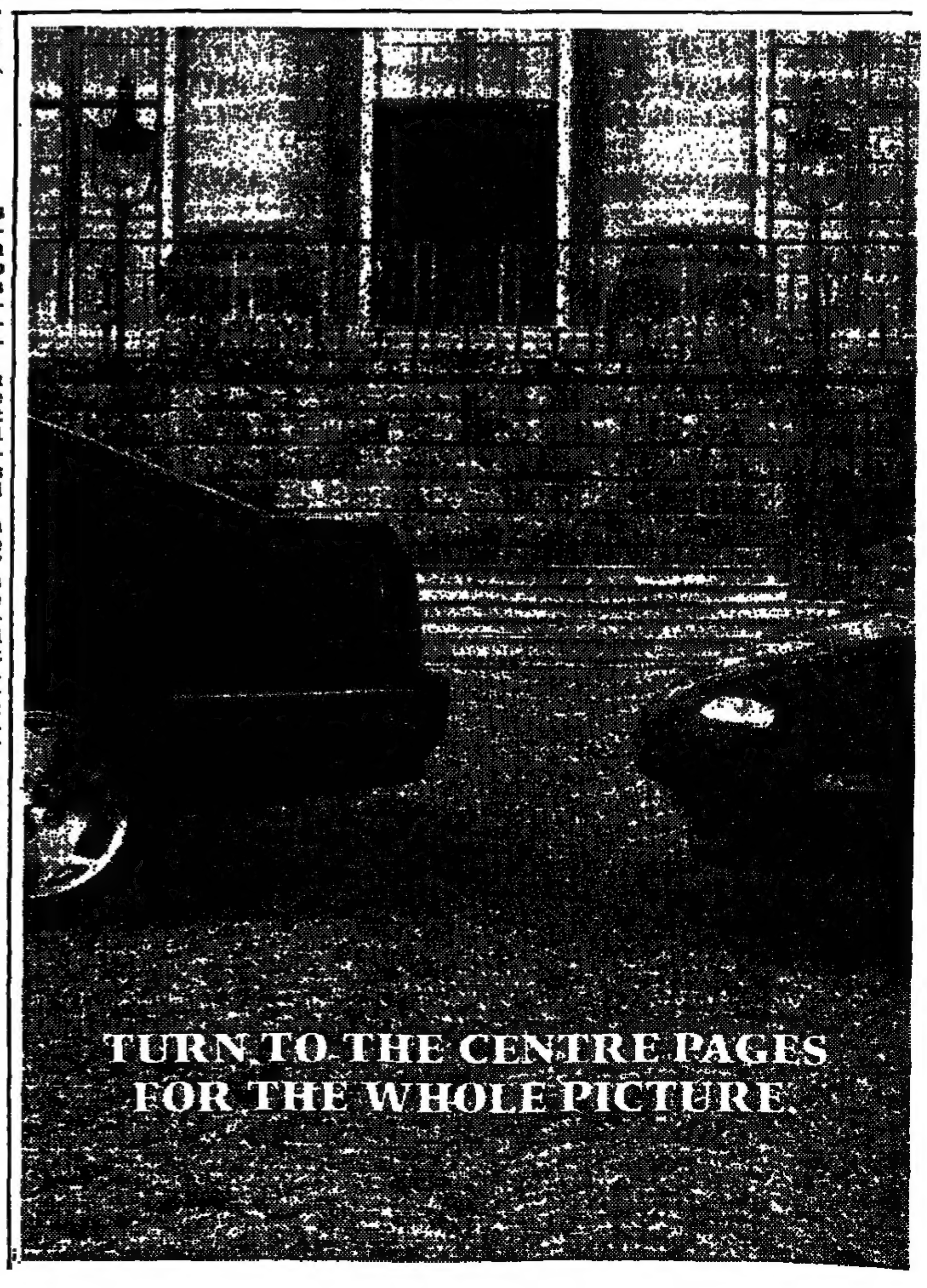
These moves came too late, however, to stem France's anger at the invasion of its diplomatic mission. Apart from deciding at the weekend to send troops, aircraft and tanks to the Gulf, the French Government also ordered the expulsion of more than 40 Iraqi diplomats and other officials.

Mr Douglas Hurd, the British Foreign Secretary, said at the ministerial meeting that Britain's move to expel 31 Iraqis was a gesture of solidarity with those of its partners whose missions in Kuwait had been invaded.

There was some concern in London, however, that the Iraqis might order "tit-for-tat" expulsions of British diplomats from Baghdad, leaving the large number of British citizens stranded against their will in Kuwait and Iraq without diplomatic protection and help.

Meanwhile, the Spanish Foreign Ministry announced that Iraqi troops had taken up positions around Spain's embassy in Kuwait.

Crisis in the Gulf, Page 2; West caught in its own noose, Page 21



World News

Lech Walesa to run for presidency of Poland

Solidarity leader Lech Walesa formally announced that he would run for the Polish presidency in elections expected soon. Page 4

Relations restored

Saudi Arabia and the Soviet Union are to restore diplomatic relations after a break of over 50 years. President Mikhail Gorbachev received a message from King Fahd. Page 2

UN change proposed

Italian Prime Minister Giulio Andreotti proposed that Britain and France should give up their permanent membership of the UN Security Council in favour of the European Community and Japan.

Aquino wants US out

President Corazon Aquino urged "an orderly withdrawal" of US forces from the Philippines and said negotiations beginning today on military bases were aimed at redefining relations. Page 6

Barry spared retrial

US federal prosecutors announced they would not seek a retrial of Washington Mayor Marion Barry on drug and perjury charges. Page 8

Panama manhunt

Panama began a manhunt for Eliezer Gaytan, head of security for deposed strongman Manuel Noriega, who abandoned his refuge in Panama's Vatican embassy.

Hunger in Liberia

People too weak to move are dying of starvation on the streets of troubled Monrovia, refugees airlifted from the Liberian capital said.

Paintings stolen

Thieves stole two paintings by Gainsborough and one by Sir Joshua Reynolds, said to be worth more than $11m in all, from the Great Hall of Lincoln's Inn in London.

Body found in Ulster

Police and troops searching for a policeman kidnapped by the Irish Republican Army in Northern Ireland discovered a body on a roadside. A British Army sergeant was critically ill after being shot outside a London recruitment office.

Palestinians strike

Palestinians in the Israeli-occupied West Bank and Gaza Strip went on strike to mark the eighth anniversary of the massacre of Palestinian refugees at Sabra and Shatilla camps in Lebanon.

PM may resign

Norway's Conservative Prime Minister Jan Syse may be forced to resign after revelations of alleged irregularities and negligence in his own companies' accounts. Page 4

Anger at envoy

A speech by US ambassador to Pakistan Robert Oakley has led to a senior minister there demanding that he be recalled and replaced. Page 6

Immunity for banker

A senior merchant banker with Wardley Holdings, a subsidiary of Hongkong and Shanghai Banking Corporation, admitted he had been given immunity in the corruption trial of Ronald Li, former chairman of the Hong Kong Stock Exchange. Page 6

Millionaire jailed

David Brown, a millionaire computer expert, was jailed for life in Santa Ana, California, without possibility of parole, for persuading his daughter, when she was 14, to murder her stepmother.

Cosby top earner

Television star Bill Cosby topped singer Michael Jackson and the Rolling Stones as number one on Forbes magazine's annual list of the world's top-earning entertainers.

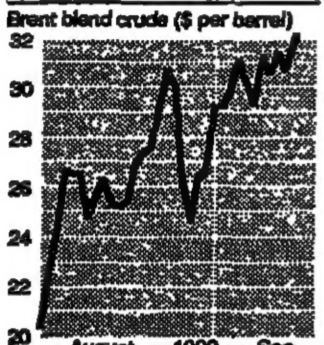
Business Summary

General Motors to invest $1bn in Europe

General Motors' components division, world's largest supplier of car parts, has strengthened the management of its western European operations and plans to invest more than $1bn in the region over the next five years. Page 23

MARKETS: Oil: World prices rose close to an eight-year high yesterday. The November futures price for North Sea Brent crude rose $1.55 per barrel to $32.20, while the November contract for West Texas Intermediate gained nearly a dollar to $32.10. Traders say shortages of available crude oil are becoming increasingly apparent and expect further price rises. Tokyo: Share prices eased from the outset, with the Nikkei closing 531.86 lower at 24,365.60. Wall Street: The Dow Jones industrial average recovered after an opening fall of nearly 20 points to stand only modestly lower at midsession, down 2.97 at 2,561.14. Frankfurt: DAX fell by 12.92 to close at 1,541.15. Back Page, Section II

Oil price



URUGUAY Round: US is to propose cuts over 10 years of 70 per cent in domestic agriculture support and more in export subsidies. Page 3

HAWKER Siddeley, diversified UK engineering group, reported 28 per cent fall in pre-tax profits. Page 23; Lex, Page 22

CHRISTIE'S International, the auction house, said more selective buying held back earnings growth. Page 23

FAG Kugelfischer, West German bearing and industrial systems manufacturer, expanded North American activities with acquisition of Connecticut-based Barden. Page 23

DAVIES & Newman Holdings, parent of troubled charter airline Dan-Air, put its aircraft maintenance business up for sale. Page 23

C. ITOH, Japanese trading house, is planning finance joint venture in London with Westinghouse Credit of the US to engage in merchant banking activities in Europe. Page 30

EUROPEAN Commission may lift textile dumping duties after complaints from importers that dumping is no longer taking place. Page 3

AMERICAN Home Products, US conglomerate, announced move into anti-AIDS field. Page 24

MOODY'S Investors Service, US ratings agency, placed three leading Japanese banks on credit review list because of concern about their profitability and domestic asset base. Page 30

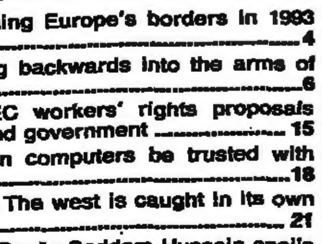
NORWAY received applications from 24 oil companies for 52 offshore blocks in the country's biggest licensing round since 1965. Page 36

HONG Leong Finance, Singapore's largest finance company, saw profits dip following decline at subsidiary Singapore Finance. Page 24

CREDIT du Nord, commercial banking subsidiary of France's Paribas group, announced 50 per cent advance in net first half profits. Page 25

CONTENTS

Syria spots an opening for manoeuvre in the Gulf



For President Hafez al-Assad of Syria the Gulf crisis is an opportunity to get his country out of the corner it has been in since the end of the Gulf war, when his rival Saddam Hussein assumed leadership of all the Arabs
Page 2

MARKETS

STERLING
New York:
$1.9140 (1.8926)
London:
$1.8775 (1.898)
DM2.9550 (2.9625)
FFr9.9000 (9.9275)
SFr2.4650 (2.45)
Y257.75 (259.25)
£ index 94.4 (94.2)

GOLD
New York: Comex Dec
$395.2
London:
$390.0 (385.25)

N SEA OIL (Argus)
Brent 15-day Nov
$32.25 (30.75)

Chief price changes yesterday: Page 23

DOLLAR
New York:
DM1.5485 (1.57075)
FFr5.1880 (5.2615)
SFr1.2765 (1.29755)
Y136.55 (137.0)
London:
DM1.5745 (1.581)
FFr5.2725 (5.23)
SFr1.3125 (1.2905)
Y137.30 (136.6)
$ index 62.4 (62.5)
Tokyo close: Y137.00

US lunchtime rates
Fed Funds $7\frac{15}{16}$%
3-mo Treasury Bills:
yield: 7.61%
Long Bond:
$96\frac{7}{8}$
yield: 9.05%

STOCK INDICES
FT-SE 100:
2,094.3 (+0.5)
FT Ordinary:
1,606.1 (−3.5)
FT-A All-Share:
1,015.99 (−0.2%)
New York:
DJ Ind. Av.
2,567.33 (+3.22)
S&P Comp
316.50 (−0.33)
Tokyo: Nikkei
24,365.60 (−531.86)

LONDON MONEY
3-month Interbank:
closing $14\frac{13}{16}$-$14\frac{7}{8}$%
(same)
Liffe long gilt future:
$82\frac{13}{32}$ (same)

Saudis expected to speed arms purchases from UK

By David White, Defence Correspondent

SAUDI ARABIA is expected to speed its purchases of arms from the UK and could increase its requirements, British Aerospace officials said yesterday. BAe is the lead contractor for agreements between the two countries estimated to be worth £16bn-£20bn.

This is despite the imminent prospect of a US-Saudi package deal for $20bn (£10.6bn) of arms, including advanced fighters, and support services.

Reports from Riyadh that the new US-Saudi package would be to the detriment of BAe's prospective sales are discounted by the company.

Professor Roland Smith, BAe chairman, said he was "not at all" concerned that US manufacturers were cornering the market. The proposed US package did not mean that Saudi Arabia would automatically reduce or cancel purchases from BAe.

"It's not an either/or situation," he said.

BAe has begun discussions with the Saudis on new contracts to improve several air bases in addition to construction of a big new base at Al-Sulayil, 300 miles south of Riyadh, which was part of a framework deal signed in 1988.

The rise in oil prices since the eruption of the Gulf crisis means more money is available for UK supplies, which are paid for out of proceeds from the sale of 500,000 barrels of crude a day.

There is also speculation that Saudi Arabia might make a cash payment to boost its British purchases.

Mr Dick Evans, BAe's chief executive, hinted recently: "The Saudis do have the option to inject cash into the programme if appropriate."

The company has held informal contacts with the Saudis since Iraq's invasion of Kuwait, and more substantive talks are due to take place in the next few weeks.

These will tackle Riyadh's priorities for supplies under the 1988 deal, which was the second phase of the Al Yamamah agreement concluded two years earlier.

Before the crisis, prospects of including an additional 48 Tornado aircraft were fading. Other purchases, including US-designed Black Hawk helicopters from Westland, came higher on the list.

BAe's production of the Anglo-German-Italian Tornado is due to end in 1992. It has already delivered to the Saudis most of the 48 ground-attack Tornados and 24 air-defence variants ordered under the first phase of Al Yamamah. It denied that the Saudis had altered their order. The additional 48, if ordered, would be a mix of the two variants.

Prof Smith said Saudi Arabia appeared to be "extremely pleased" with the company's performance. He was not aware of any complaints.

No firm contracts have been signed for the second phase, although shipbuilder Vosper Thornycroft received instructions in 1988 to proceed with work on six minehunters.

The second-phase framework agreement also included 60 BAe Hawk 200 fighters, a range of weapons, support and training. BAe denied that a second air base had been envisaged and that this contract had been lost to the US.

It had already been known for some time that Saudi Arabia wanted to increase its fleet of McDonnell Douglas F-15 fighters to about 120 if the US allowed the sale. Saudi Arabia originally ordered 72 but was limited to holding 60 in its inventory.

The US has dropped that limit and agreed to supply 24 more from the US Air Force, with a further 24 due to be sold if the package deal is approved by Congress.

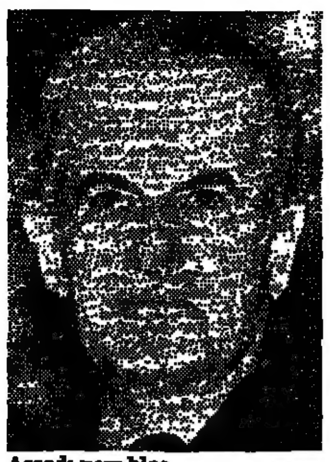
The US package also includes tanks, with 385 more of the latest M1A2 Abrams in addition to 315 already ordered, armoured fighting vehicles, trucks, missiles, helicopters and other equipment.

Syria confronts an enemy as old as Islam

Tony Walker sees President Assad trying to break out of a diplomatic straitjacket

IN Damascus's vast Hammadia souk, where there is a street called Straight and a mosque of exquisite proportions, it was business as usual. Traders in spice, carpets, damask cloth and almost anything else you care to mention were peddling their wares seemingly oblivious to the drama unfolding elsewhere in the Middle East.

But behind these comfortable everyday scenes, questions hung in the air to be met with a shrug of the shoulders or a lift of an eyebrow. What did Damascenes think of their president's decision to send troops to Saudi Arabia to confront Iraq and to side with the Americans?



Assad: new bloc

In the furtive atmosphere of Damascus, where watchers seem sometimes to outnumber the watched, responses tend to be cryptic. What is left unsaid is often more revealing: the sense of a sentiment against the presence of foreign troops in Saudi Arabia and, by implication, Syria's decision to commit its own forces.

"Three out of four Syrians are against sending soldiers," said a Syrian businessman. "They don't say it out loud. People feel it in their hearts." And so it is in this city of mystery and intrigue: people feel things in their hearts.

For President Hafez al-Assad the Gulf crisis is not so much an affair of the heart as an opportunity to manoeuvre his way out of the corner Syria had found itself in for the two years since the end of the Gulf war. For this permitted his arch-rival, President Saddam Hussein of Iraq, to pursue his dream of leadership of all the Arabs, and perhaps worse, from Damascus's standpoint, to meddle in Lebanon.

The revolution sweeping eastern Europe and the scaling down of Soviet military support for Syria brought further shocks to a leadership that, more than most, values the certainties of old friendships and alliances. Even before the Gulf crisis, Damascus had begun reviewing how to break out of its straitjacket.

In the search for fresh alliances none has proved more important than Damascus's newly refurbished relationship with Cairo. Presidents Assad and Hosni Mubarak, the Egyptian leader, former colleagues at a Soviet air force academy, have revived an old friendship.

Most important, the collapse of the pre-invasion Arab order has enabled Mr Assad to start fashioning a new bloc whose main purpose is to contain and, if possible, eliminate Mr Saddam, who poses almost as much of a threat to the continued rule of Mr Assad's own Alawite minority in Syria as he does to the oil-rich rulers of the Gulf.

If there is anything that might cause the cerebral Mr Assad sleepless nights, it would be the thought of Mr Saddam somehow emerging from the crisis with his reputation enhanced and bent on revenge against those who he believes betrayed him.

Syria, in league with Egypt and Saudi Arabia with possibly shaky backing from Iran, is determined to confront Mr Saddam. Hence Mr Assad is supporting the Arab moderates and has overcome his reluctance to commit forces to serve alongside Americans.

Syria has also been pushed towards the moderate Arab camp by money. Reduced Soviet and East bloc support, and the end of disbursements from Arab states under the 10-year Baghdad agreement of 1978, left a financially vulnerable country even more cash-starved.

Now, Saudi Arabia is reported to have increased its assistance sharply. Some west European countries may put aside their reservations about Syrian support for terrorism and resume aid. The sharp rise in oil prices is also a boon to Syria, since it is a net exporter.

A long-serving western ambassador in Damascus described Mr Assad as a "marvellous long-term strategist", by comparison with Mr Saddam, a "consummate tactician, but lousy strategist". The struggle between Damascus and Baghdad, almost as old as Islamic history itself, has seldom witnessed higher stakes than those now prevailing.

The Syrian leadership, which has long emphasised its revolutionary character, does not feel entirely comfortable about being tied to the presence of foreign forces in Saudi Arabia. Indeed, Mr Assad, in a 3½-hour speech last week to army trainees, dwelt at length on this uncomfortable detail, one that the regime knows puts it at odds with many Syrians.

"We are not in favour of the presence of foreign troops anywhere in the Arab world," he declared. "This was and is Syria's stand. But the issue is not that of foreign troops because the problem started before the foreign troops came to the area... Therefore, let us solve our problem, and it is an inter-Arab problem, and when we solve it, the foreign troops will leave."

Not that there is much opportunity for public dissent. Syria's official media contain no criticism of government policy on the Gulf. Radical Palestinians groups in Damascus are not permitted to air their generally pro-Saddam views. Publications of the Popular and Democratic Fronts have been stopped from circulating, and literature distributed by the Syrian-sponsored Palestinian National Salvation Front, which groups dissident splinter factions opposed to the leadership of Mr Yassir Arafat, the PLO chairman, carries no criticism of the Syrian position.

In Damascus last week, a BBC reporter felt the scorn of the authorities when he referred to reports of demonstrations last month against official policy – demonstrations that Syrian officials insist never happened. The reporter had his phone cut and a guard placed outside his hotel room, and was obliged to make a quick exit from the country.

In this high-stakes poker game between Damascus and Baghdad, in this struggle between tactics and strategy, there are great risks. Mr Assad knows he has taken a gamble; but, as always, he is in the business of seeking to lessen the odds against losing.

NEWS IN BRIEF

Kuwaitis fear Iraqis plan to draft them

IRAQ is rounding up young Kuwaitis in what they fear may be a first step to drafting them into the Iraqi army occupying their country, Reuter reports from Khafji, Saudi Arabia.

Refugees fleeing Kuwait across the Saudi border said yesterday that Kuwaiti men of military age were being taken off cars at Iraqi checkpoints. Iraqi men between 18 and 45 are liable to military service when a national emergency is declared.

US-UK co-ordination talks

Senior US and British officials will meet this week in Washington to discuss whether new arrangements are needed for co-ordinating land, air and naval forces in Saudi Arabia and the Gulf following expanded British and French military commitments in the Gulf, Peter Riddell reports from Washington.

Irishmen jailed for fleeing

Three Irishmen have been jailed by the Iraqis for trying to leave the country without exit visas, Kieran Cooke writes from Dublin.

The Irish Department of Foreign Affairs said the men were caught two weeks ago. They were due to appear before an Iraqi court in the next few weeks.

Medical aid from Czechs

Czechoslovakia is to send a field hospital and medical teams to the Gulf in what is believed to be the first practical contribution by a former eastern bloc country to support the UN effort to reverse Iraq's invasion of Kuwait, writes Ivo Dawnay in Prague.

Iran affirms backing for UN

Tehran has reaffirmed it would abide by UN sanctions against Iraq as a senior Iranian official discussed normalisation of ties in Baghdad, Reuter reports from Nicosia.

Tehran Radio said Deputy Foreign Minister Mahmoud Vaezi, briefing EC ambassadors in Tehran, stressed Iran's commitment to the Security Council resolution imposing an embargo on Iraq.

A volunteer worker sprays disinfectant round tents in the Andalus refugee camp near Amman, Jordan

Delors deplores EC failure to quantify aid

By David Buchan in Brussels

MR Jacques Delors, the European Commission president, yesterday called "deplorable" the failure of EC foreign ministers to put a firm figure to the aid they had earlier pledged to sanctions-affected states in the Middle East.

Ten days earlier, Mr Delors had hailed the ministers' promises of aid as a sign of the Community's new capacity to take speedy decisions as a political unit. But British and Dutch opposition yesterday prevented further progress in specifying figures.

Mr Douglas Hurd, the UK Foreign Secretary, argued that the fact that Japan had just doubled its Gulf aid contribution and the prospect that "other well-to-do countries like Austria and Switzerland" would chip in made it likely that in seeking Ecus 750m (£522m) from the EC budget and the same again in individual national contributions, Brussels was being too demanding.

Military spending – £2m a day in Britain's case – should also be taken into account, he said.

None the less, Mr Hurd said he expected EC agreement within a fortnight. For his part, Mr Gianni De Michelis, the Italian Foreign Minister chairing yesterday's discussion, sought to minimise the disarray over general economic aid and stressed yesterday's accord that EC emergency aid to feed and transport refugees should be bumped up by a further Ecus 45m.

Ministers also instructed Brussels to start immediate negotiations for:

- A new financial protocol with Syria worth around Ecus 146m in European Investment Bank loans and aid.
- Free trade arrangements with members of the Gulf Co-operation Council without further ado. There had been some possibility that Brussels would ask for a new negotiating mandate which would have caused further delay.

Separately, yesterday Israel called for new and closer relations with the European Community in the light of the Gulf crisis.

Speaking at a long-arranged discussion of the EC-Israel association accord, Mr David Levy, Israel's Foreign Minster, said his countrymen were "much nearer to Europe than our non-European Mediterranean neighbours".

Brasília embarrassed by military links

By Simon Fisher in Rio de Janeiro

THE presence in Baghdad of four Brazilian diplomats seeking to secure exit visas for more than 300 Brazilians stranded in Iraq has pointed up the military nature of the countries' connection and is proving an embarrassment to the Brazilian government.

Most of the Brazilians are employed on construction contracts, but they include a shadowy group of 21 weapons specialists working on an unofficial project to develop sophisticated missile technology for Iraq.

The four-man diplomatic mission is led by the Brazilian ambassador to London, Mr Paulo Tarso Flecha de Lima, who was one of the key figures in developing commercial ties between Brazil and Iraq in the mid-1970s, under successive Brazilian military governments.

Brazil's relations with Iraq have maintained close contact between the military of both countries. Brazil has supplied arms in exchange for oil, and is said to have helped Iraq in its quest for nuclear technology for military purposes, including secret shipments of yellow-cake uranium in 1981.

Brazil has tried to keep a low profile so far in the Gulf conflict, supporting the UN embargo and distancing itself from the activities of what it refers to as private citizens.

The 21 technicians, however, include ex-military officers who previously were employed on the Brazilian Air Force Piranha missile programme, abandoned in 1988 because of costs. They are led by military reservist Brigadier Hugo de Oliveira Piva, one of the mentors of Brazil's nuclear and space programmes. He is also in Baghdad, apparently able to enter and leave Iraq at will.

Iraq maintains that the technicians cannot leave because they know Iraqi military secrets. Most of the Brazilian citizens work on canal and road construction contracts and the Brazilian foreign ministry says Iraq is refusing to issue exit visas unless the construction company, Mendes Junior, agrees to contract an Iraqi company to finish the job.

Japanese oil prices rise despite Miti pressure

By Stefan Wagstyl in Tokyo

JAPAN'S OIL distribution companies yesterday announced increases of 7 to 8 per cent in the price of petrol and other products in response to the rise in crude oil prices.

The increases would have been greater had it not been for pressure from the Ministry of International Trade and Industry (Miti), which is seeking to minimise the impact of higher international oil prices on the Japanese economy.

One oil company said it had wanted to raise the cost of a litre of petrol by Y10 (4p) to around Y132, but had been forced to accept an Y8 increase.

Miti is concerned to ward off inflation and recession. There are also fears that sharp product price increases may spark panic buying.

In Hokkaido, Japan's northern island, householders have complained to the local Miti office that shopkeepers were last week refusing to sell heating oil before the expected price increase. A local action committee of consumer groups and labour unions demanded guarantees of stable supplies.

Miti said sales of heating oil in Hokkaido ran 15 per cent above normal in July and August as some householders stocked up early for the winter. This left some users – including farmers and building companies – short of kerosene and propane gas.

Miti appealed to householders to stop stockpiling.

- Richard Gourlay in London adds: The Japanese government has lifted restrictions on domestic oil refineries in order to ensure enough kerosene, an important winter fuel, will be available to consumers, according to the industry newsletter, Petroleum Intelligence Weekly.

Riyadh and Moscow restore ties after 50 years

SAUDI ARABIA and the Soviet Union agreed yesterday to restore diplomatic relations after a break of more than 50 years, Tass news agency reported, AP reports from Moscow.

President Mikhail Gorbachev met Saudi Foreign Minister Prince Saud Al-Faisal Al Saud and expressed hope that bilateral relations between the countries would help settle the Gulf crisis, Tass said.

"The restoration of diplomatic relations amid an acute crisis in the Arab East emphasised the resolve of both states to insistently seek the implementation of UN Security Council resolutions on the Gulf in co-operation with other members of the international community," the official news agency said.

Tass said Mr Gorbachev and Prince Saud "assessed the possible conduct of the aggressor" – meaning Iraq. Prince Saud handed Mr Gorbachev a message from King Fahd, the Saudi monarch, without disclosing its contents.

Earlier, the prince met Foreign Minister Eduard Shevardnadze, and they urged the immediate withdrawal of Iraqi troops from Kuwait, Tass said.

Crisis reconciles Jordan and Palestinians

THE Gulf crisis has brought about a reconciliation between King Hussein and two radical Palestinian leaders who once vowed to topple him, Lamis Andoni writes from Amman.

In separate meetings on Sunday, the king received Mr George Habash of the Popular Front for the Liberation of Palestine (PFLP) and Mr Nayef Hawatmeh of the Democratic Front for the Liberation of Palestine (DFLP).

They were the first such contacts since the two Palestinian leaders were banished from Jordan in 1970, and were not reported by the official Jordanian media yesterday.

King Hussein and Palestinian groups have expressed sympathy with Iraq following the Iraqi invasion of Kuwait and the arrival of US and other forces in Saudi Arabia.

Mr Habash and Mr Hawatmeh were previously active opponents of King Hussein's regime, which they described as reactionary and treacherous. During the civil war in 1970 the Jordanian government put a bounty on each of the two leaders, considered the "most wanted outlaws" in the country.

The King's relinquishing of responsibilities for the Israeli-occupied West Bank to the Palestine Liberation Organisation (PLO) in 1988 removed a big source of contention.

The democratisation process in Jordan, culminating in parliamentary elections last November, was hailed by both groups as a historic turning point for the whole region.

But it was a common stand against the American military intervention in the Gulf which finally prompted the reconciliation, when King Hussein let the two come back to attend a conference of radical Arabs.

This ended on Monday with a call on Arabs to attack US interests in the region "the minute the US attacks Iraq".

United Nations steps into the Gulf spotlight, warts and all

The Security Council is taking the lead in action against Iraq. Edward Mortimer ponders how well equipped it is to do so

THE Security Council is "actually being door-stepped," said a diplomat from one of its member-states last week, without pretending that he found the experience other than gratifying.

The UN Security Council is the centre of unaccustomed world attention because, for the first time, it is taking "action with respect to threats to the peace, breaches of the peace, and acts of aggression", as it is empowered to do by Chapter VII of the Charter, and so exercising its "primary responsibility for the maintenance of international peace and security".

The forces assembling in Saudi Arabia are not yet under UN command, and no resolution of the Council has yet invoked Article 42, which refers to "action by air, sea or land forces". But the interception of ships suspected of breaking the embargo on Iraq already goes beyond a strict interpretation of Article 41, which refers to "measures not involving the use of armed force". Insiders talk of "Article 41½".

All this could fly apart if the US decides, with or without some of its allies, to take unilateral military action against Iraq. But for the moment it is being careful to seek the Council's authority for its actions directly aimed at forcing Iraq to withdraw from Kuwait (as opposed to those which, ostensibly at least, are designed to defend Saudi Arabia). And President George Bush, in promising "a new world order", has made it clear that this is to be based on "concerted United Nations action against aggression".

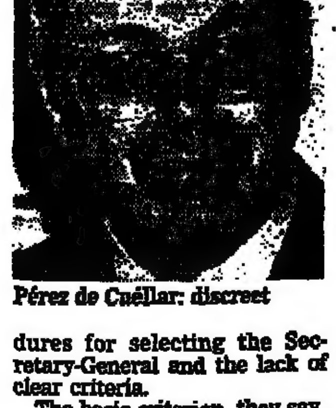
But how well equipped is the UN to play the leading role thus suddenly assigned to it? Observers in New York see two principal points of weakness.

One is the Secretariat, the UN's executive body. Paradoxically, the Secretariat's status is actually somewhat diminished by the Security Council's new-found activism. When the Security Council was paralysed by the cold war, it was left to the Secretary-General to take the initiative – and that often happened, especially in the days of the second Secretary-General, Mr Dag Hammarskjöld (1953-1961).

In fact Mr Hammarskjöld's activism brought him into conflict with the permanent members and they have since avoided appointing anyone with such a strong personality.

Mr Javier Pérez de Cuéllar, the present Secretary-General, has won almost universal respect at the UN. He is discreet, an efficient administrator, and rather than try to compete with the Security Council he has encouraged the five permanent members to work together, especially in the closing stages of the Iran-Iraq war. But as he nears the end of his second five-year term he is visibly exhausted and the search for a successor is beginning.

A pamphlet* published today by two recently retired elder statesmen of the UN, Sir Brian Urquhart and Mr Erskine Childers, draws attention to the inadequacy of the procedures for selecting the Secretary-General and the lack of clear criteria.



Pérez de Cuéllar: discreet

The basic criterion, they say, "appears to have been to find a reasonably acceptable candidate who could escape the veto". They particularly criticise the way the procedure operated in 1971, which gave "a sad impression of lack of top-level governmental interest, inadequate high-level consultation, opportunism, gossip, rumour, intrigue and a complete absence of record-checking". (The result was, of course, the appointment of Dr Kurt Waldheim.)

They suggest a number of improvements, taking into account the need for the UN not only to act in defence of peace and security but also to co-ordinate the handling of new global issues such as drugs, Aids, population and the environment, at present dispersed among a rambling network of UN agencies.

(One interesting finding is that among 136 executive heads of such agencies appointed since 1946 only one has been a woman – Dr Nafis Sadik of Pakistan, currently head of the UN Population Fund.)

The other problem concerns the membership of the Security Council itself, which is skewed heavily in favour of Europe. Four of the five permanent members (Britain, France, the Soviet Union and the US) are also members of the Conference on Security and Co-operation in Europe. In addition three of the 10 non-permanent members are usually European – two from the western group and one from the now rather anomalous east European group.

This imbalance would be aggravated if the latest Soviet proposal to make Germany a sixth permanent member were adopted. Japan would certainly insist that it had at least as good a claim, and many would argue that the EC should content itself with one permanent seat rather than three. Brazil has also put forward a claim for itself and two or three other third world countries (India, Nigeria and possibly Egypt) to be given permanent membership, though without a veto. (It is often pointed out that the non-aligned already have a veto if they vote together, since they form the majority in the Council.)

But the veto itself is seen by some as an anachronism. It was originally introduced as a concession to Stalin, who feared he would otherwise be outvoted by a capitalist majority. Its effect now is to ensure that while the Security Council can take action to enforce the law against a middle-sized transgressor like Iraq, great powers like the US can invade small countries such as Grenada and Panama without being answerable to anyone.

The fact that the US, thanks to the unwillingness of Congress to vote the necessary funds, is several years behind with its payment of UN dues makes its self-righteous invocation of UN decisions in the current crisis even harder for many other members to take.

In the past such arguments were largely theoretical. Today, as the Security Council takes decisions which materially affect the vital interests of many states, they are beginning to arouse real passion.

* A world in need of leadership: tomorrow's United Nations (Dag Hammarskjöld Foundation, Uppsala, Sweden).

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Washington to table new offer on farm subsidies

By William Dullforce in Geneva

THE US will table a revised proposal for reductions in agricultural support in the Uruguay Round trade talks next Monday. It will call for cuts of "as much as 70 per cent in domestic supports and even more in export subsidies" over a period of 10 years, Mrs Carla Hills, US Trade Representative, said in Geneva yesterday.

Mrs Hills would not disclose further details but described the proposal as an "enrichment" of the original US offer. The implication of her remarks is that the US may no longer be insisting on the full elimination of all farm export subsidies.

A compromise over agriculture between the US and the Cairns Group of 14 farm-exporting nations on the one side and the European Community on the other has become the key to the success of the whole Round.

Mr Ray MacSharry, the EC Agriculture Commissioner, last month offered a 30 per cent reduction in total EC assistance to farmers. The most difficult issue in the talks has been the EC's refusal to abandon its export subsidies.

Mrs Hills said yesterday that gradual and progressive cuts in export subsidies "ought not to be a problem". But she insisted that an EC support mechanism, which had produced a rise in export subsidies from \$9bn last year to \$11bn this year, was "intolerable".

"We have to figure out a way in which the EC farmers can operate without distorting our markets," she added.

Mrs Hills is in Geneva for three days with members of the US private sector advisory committee on trade policy to the Bush administration. They will be discussing with senior negotiators the problems in which the 15-part talks have become mired.

With the Uruguay Round in its last 70 working days "we want to be sure that the ambassadors share our concern about how much (still) has to be done", Mrs Hills said.

Other countries have been looking to a lead from Washington in the stalled talks on services and textiles and clothing. Mrs Hills said one of the purposes of her visit was to see if something could not be done to break the logjam in services.

The US will lodge a complaint about European Community subsidies to Airbus Industrie with the General Agreement on Tariffs and Trade, if no understanding is reached in bilateral discussions by the end of September, Mrs Carla Hills, US Trade Representative, said yesterday. A July 31 deadline had been allowed to slip because US negotiators had received a call from Brussels suggesting there could be greater flexibility on the European side and because Gatt was in recess.

More "senior attention" was required in services. Mrs Hills promised "more policy guidance" from Washington.

However, she denied that the US was being more recalcitrant than other countries over the crucial question of "coverage", the number of sectors to be covered by a trade-liberalising agreement in services.

US domestic shipping, civil aviation and telecommunication interests have been pressing for their sectors to be excluded.

Other countries had similar problems, Mrs Hills said and cited the EC's wish to avoid commitments on broadcasting.

In the textiles talks a US proposal to switch to a system of global quotas when dismantling the existing mechanism of bilaterally agreed import quotas has been a major stumbling block.

Yesterday Mrs Hills said that, if no other country wanted to discuss global quotas, the US was willing to negotiate on five main points regarding a transition period to full liberalisation of trade in textiles and clothing. These were coverage by country and by product, the period of the transition, growth rates for imports during the period and safeguards against disruptive surges in imports.

But Mrs Hills confessed that she was "enormously distressed" that a new textile bill, setting up a global quota system, was being put to the US Congress in the last two months of the Uruguay Round.

EC may lift some duties on textiles

By Lucy Kellaway in Brussels

THE European Commission is considering whether to lift some textile dumping duties imposed in 1988, following complaints from Community importers that dumping is no longer taking place, and that the continued existence of the duties is harming consumers of the product.

The duty was imposed on imports of polyester fibre from the US, Mexico, Romania, Taiwan, Turkey and Yugoslavia.

A group of EC importers have complained to the Commission that the exporting countries have increased their prices so they are no longer dumping, and EC producers - now in better health anyway - are no longer suffering as a result of the cheap imports.

Moreover, they have claimed the continued existence of the duties has led to a reduction in imports and an increase in EC prices for polyester fibre - which has increased costs for users of the fibre.

Other textile imports which compete with products made by Community polyester yarn users have not been subjected to any duty and have therefore become more competitive. This has increased the losses of EC users of polyester fibre.

US tries to cash in on Soviet 'revolution'

Anthony Robinson on American companies seeking big business with Moscow

"WITH FULL backing at last from the US government we now have a strong chance to do good business in the Soviet Union after being badly beaten for years by Europeans who had the government support we lacked."

That is how Mr John Murphy, chairman of Dresser Industries, summed up the new climate for US-Soviet business following the Helsinki summit and the impending Soviet conversion to a more decentralised market economy.

Last week Mr Murphy was one of a "presidential delegation" of 15 chief executives of US corporations, led by Mr Robert Mosbacher, the US commerce secretary, to hold high level talks in Moscow with the specific political backing of the US and Soviet presidents.

It was not always thus. Ten years ago he was the butt of official US anger when he persisted in selling a high-tech drilling equipment plant to the Soviet Union, in defiance of US government attempts to embargo the export of energy-related and other strategic exports, in the wake of the Soviet invasion of Afghanistan.

Now Moscow, obsessed for decades by its bid for military parity with Washington, is looking to US companies to help it find alternative civilian employment for over 400 former military factories and to attract US investment in energy, transportation, mass housing, food and other mass market and high-tech areas.

Mr Mosbacher made clear that the US government would not help US companies by granting large scale credits, like Germany and other European countries and was concerned about the backlog in trade payments of up to \$200m.

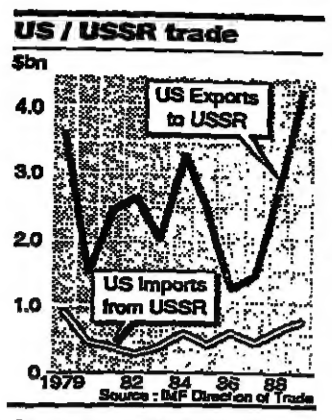
He also identified a list of problem areas, including confusion over who to talk to now the centralised system of state foreign trade and banking monopolies is being broken up, lack of clarity on property laws and ownership rights, uncertainty over rouble convertibility and poor infrastructure.

But after four days of intensive talks, culminating in a three-hour session with Mr Gorbachev, the delegation talked optimistically of future deals in oil and gas, military conversion, mass housing, transport, financial services and communications.

Long-standing obstacles to trade, like withholding of most-favoured-nation status until passage of a new liberal Soviet emigration law, are expected to be cleared by Congress shortly after the Supreme Soviet passes such a law within the next two months.

Six of the 15 business chiefs were from oil or energy related businesses. Chevron, which already has a joint venture in the Caspian sea is discussing development of a geologically complex multi-billion barrel Tengiz field in Kazakhstan.

US / USSR trade



Source: IMF Direction of Trade

Mr Kenneth Derr, the chairman, said the talks were no longer with Moscow-based ministries alone but also with the President of Kazakhstan and republican authorities. Such people, including the mayors of big cities like Moscow and Leningrad, will play a much more important role as the central ministries wither and decision-making power devolves to enterprises and local and regional authorities under the "Shatalin plan" for conversion to a market system within the next 500 days.

Meanwhile a graphic illustration of the wider infrastructural problems in the energy sector was given by Mr Mark Hungerford, chairman of San Francisco based Transisco Industries. Since 1989 the company has been in a joint venture with Sovfintrans, leasing 1,500 heated rail tank wagons for the transport of oil in a deal financed through European banks. Last week he announced another \$50m deal to lease and operate a further 1,000 wagons on the Soviet railways. "It is a profitable business and we like our Soviet partners who have picked up the new technology and business methods fast. We are glad to be in the biggest rail car market in the world," he said.

Transisco makes money by turning round its rail cars three times faster than the Soviet railway average. Given that the Soviet railway system has no fewer than 900,000 oil tank cars, (compared with only 200,000 on the US rail network), the potential productivity gains in modernising to US standards are immense, he added. The badly overloaded and under-invested railways could do the same job with 600,000 fewer rail cars.

Transisco is also negotiating an unspecified civilian aircraft deal with Sukhoi, which hitherto has made Soviet fighters and other military aircraft.

Aerospace is a particular favourite for future US-Soviet co-operation. The two sides already have unprecedented access to former secret military facilities in each other's countries as a result of arms control agreements involving the supervised destruction of weapons systems. Last week Mr Armand Hammer, the doyen of US-Soviet business, announced from Israel a plan to re-engine Tupolev 204 and Ilyushin 96 aircraft with US Pratt and Whitney engines and US and Israeli avionics.

In addition, Sealand Services is developing trans-Siberian air and express rail container links between Japan and Europe, while a delegation from the New York Stock exchange is expected in two weeks. Its members will offer technical advice on how to set up the new stock exchanges which will make their re-appearance in the Soviet Union, as the country embarks on mass privatisation of former state and party-owned assets.

It is all part of the revolution now taking place in Soviet attitudes and institutions summed up by Mr Donald Barron, chairman of Paine Webber group. "For the last few days we've been listening to Soviet officials talking enthusiastically of concepts like enterprise, profitability, markets repatriated profits, convertibility. I find it all very exciting."

Fläkt wins Skr1.5bn Ford paint shop order

By Robert Taylor in Stockholm

THE Fläkt group, part of the Asea Brown-Boveri (ABB) company, announced yesterday it had secured an order worth SKr1.5bn (£139m) from Ford to build a paint shop for the US car company's assembly plant at Oakville in Ontario, Canada.

Fläkt said the order had been acquired through its US subsidiary, ABB Fläkt Alpha, which will carry out the contract via a joint venture with Fluor Daniel of South Carolina. The largest paint shop Ford has ever had it should be operational by January 1992.

The order is a substantial boost to ABB Fläkt which made a profit of SKr639m last year and Skr18bn worth of sales. The group specialises in the manufacturer of environment friendly products. It reflects Ford's determination to improve the paint production environment which has a reputation for being dangerous and stressful.

Tokyo tries to resolve metals row with US

By Michiyo Nakamoto in Tokyo

JAPAN is putting pressure on domestic power companies to buy more US-developed technology to end an amorphous metals dispute.

Mr Kabun Muto, Japan's trade minister, says leading domestic utilities could buy more transformers using amorphous metal alloys developed by Allied Signal, a US company.

Efforts to resolve the row caused by a complaint from Allied Signal it had been unfairly kept out of the Japanese market, reached deadlock when Tokyo said a US demand for an extension on Allied Signal's patent was unacceptable.

Now Tokyo wants to end the row but insistence on a patent extension, could result in the talks breaking down, Miti says. If that happens, and Allied Signal refiles its complaint after a 150-day suspension which ends today, Japan may face retaliation by April.

Developing nations win more World Bank orders

By Peter Montagnon, World Trade Editor

DEVELOPING COUNTRIES are playing a sharply increased role in providing goods and services to projects financed by the World Bank.

According to figures released by the Washington-based institution this week, procurement from developing countries totalled \$2.8bn (£1.51bn) in the year to June 30, up \$710m on the level a year earlier.

By contrast procurement orders received by developed countries slipped to \$6.92bn from \$7.18bn.

A striking feature of the latest figures, which exclude local procurement in each project's host country, is the number of new countries now winning significant procurement orders from the Bank.

Orders won by Brazil, China, South Korea and Singapore – traditionally large developing country suppliers - slipped slightly last year, while orders won by smaller countries simply listed as "others" in its table jumped by over \$1bn to \$1.38bn.

While this suggests that the Bank is now spreading its procurement net very widely, it has also worked to the disadvantage of suppliers in the industrial world.

The UK, which has long been seeking to boost its World Bank business through a special co-financing arrangement, saw its orders drop to \$875m last year from \$935m. The US was the Bank's largest single supplier with \$1.70bn (\$1.41bn), but Japan's total slipped to \$877m from \$1.32bn. West Germany notched up a total of \$777m (\$858m), France \$716m (\$636m) and Italy \$374m (\$384m).

Measured in terms of total spending by the Bank on foreign procurement, the share of developing countries changed little during the year, reaching 23.5 per cent compared with 22.5 per cent previously.

However, the latest spending figures include outlays of \$2.16bn on debt relief, a new activity for the Bank which does not pass through normal procurement channels and is listed separately.

One conclusion is that resources applied to this activity, which benefits mostly banks in industrial countries, have diverted spending away from commercial suppliers to the Bank in the same richer parts of the world.

Waigel refuses to rule out tax rises as cost of unity

By **Katharine Campbell** in Frankfurt and **David Goodhart** in Bonn

MR Theo Waigel, the West German Finance Minister, yesterday publicly stated for the first time that tax increases cannot be ruled out to pay for German unity.

Following the receipt of two widely publicised bills – DM13bn (£4.4bn) for the withdrawal of Soviet troops from East Germany and DM3.3bn as Germany's contribution to the Gulf – Mr Waigel said: "Tax increases must be the last resort when all other measures have been exhausted."

His remarks coincided with a report by the Bundesbank, the German central bank, which issued another stern warning that the country's public borrowing programme should not be allowed "to get out of hand" even if the East German economy is suffering "recessional tendencies" during the period of adjustment to market forces.

West Germany's governing parties previously said that tax increases were not necessary, although Mr Waigel has hinted that a reduction in corporate tax planned for next year may have to be postponed. In response to Social Democrat pressure for more details on the costs of unity Chancellor Helmut Kohl said at the weekend that a balance would be drawn up after unity on October 3.

The cost of German unity coloured the conclusions drawn up by Bundesbank in its September monthly report. The central bank points out that the net credit requirements for all public sector bodies, including the German unity fund, but excluding the East German trust fund, would be "unlikely to be less than" DM100bn for 1990.

It therefore urges spending restraint at both federal and state level. Because the Länder and local authorities have so far borne far less of the brunt of German unification costs – in a period where tax revenues have been particularly buoyant – the bank suggests rising state and local expenditure should be particularly "energetically curtailed".

Despite the uncertainty surrounding the cost of unification, the authorities expect long-term yields in the bond market to settle around the current, relatively high, 9 per cent mark – partly on account of the buying appetite of domestic investors. But the bank also cautions that rates are equally unlikely to fall, given domestic factors, as well as the worldwide savings shortage.

Bundesbank monetary policy has remained virtually unchanged during the summer – weathering both the introduction of the D-Mark in East Germany at the beginning of July, as well as the onset of the Gulf crisis in August. The report indicates this stance is expected to continue.

However, policy could tighten, it hinted, if oil prices rise dramatically, or if the D-Mark weakens from its current position of strength, or if domestic prices and wages spiral upwards, feeding on "home-made" inflationary adjustments.

This month's report also highlights that, since the bank's writ extends to East Germany following currency union, monetary targeting has become more difficult – the bank does not expect to produce a reliable M3 measure for both Germanys before the end of the year.

To date, it only has available a combined figure for cash in circulation, which rose in July by 10.5 per cent.

Walesa confirms he will run for the presidency

Walesa: seen as likely winner

MR Lech Walesa, the leader of Poland's Solidarity movement, yesterday finally declared his political ambitions by announcing his intention to run for the presidency, Christopher Bobinski writes from Warsaw.

In a statement issued in Gdansk, Mr Walesa said: "I offer society my readiness to be a candidate in general elections for the office of President of the Republic of Poland. For me this means the fulfilment of the oath I took in August 1980," a reference to when Mr Walesa led the shipyard strikes which gave birth to the Solidarity movement.

The statement came on the eve of a meeting between the country's political leaders, General Wojciech Jaruzelski, the President, who says he does not want to complete his five-year term, Mr Walesa, and Cardinal Joseph Glemp, the Polish Primate.

The meeting, called at the Primate's initiative, shows that the Catholic Church is still intent on playing an important political role. But the meeting is also designed to seek ways of dismantling the "round table" arrangement under which Poland has been governed for the past year.

The round table agreement, which was formed during the spring of 1989, was originally aimed at establishing a *modus vivendi* between the communists and the opposition. Since Solidarity's crushing victory in last year's elections, it has indicated that moderate policies will be followed towards Poland's former rulers.

Mr Walesa's drive for the presidency over the past few months has, however, been conducted under the twin message: that the present government under Mr Tadeusz Mazowiecki, the Prime Minister, has been too slow in ensuring economic changes, while the former communists have too great a role.

Mr Mazowiecki, who is being urged by his supporters also to stand for the post of president, has argued that the policies urged by Mr Walesa, who is likely to win the election, run the risk of bringing chaos.

At today's meeting Cardinal Glemp will be looking to the participants to provide a dignified exit for Gen Jaruzelski, who wants no political witch hunts. A consensus has also to be built in parliament, where deputies from the former established parties, such as the communists, still have a majority and are arguing for a proportional electoral law.

On Thursday, there will be a key debate in parliament which should throw light on when elections could be held. The earliest possible date for a presidential election is the end of December. Parliamentary elections are mooted for next spring.

Thatcher warning to Prague on reform

By **Ivo Dawney** in Prague

MRS Margaret Thatcher the British Prime Minister, yesterday paid a warm tribute to Czechoslovakia's democratic revolution, but warned that the flow of foreign investment and EC membership depended on wide ranging legal reforms and an end to bureaucratic hurdles.

On the first full day of a week-long European tour to Czechoslovakia, Hungary and Switzerland, Mrs Thatcher paid fulsome praise to President Vaclav Havel for his leading role in the country's transition to democracy.

She also announced the lifting of all visa restrictions from October 1 on Czechoslovak citizens seeking to visit Britain, a recent source of diplomatic wrangling.

Welcoming the Prime Minister, the first ever British leader to visit Czechoslovakia, President Havel in turn praised the UK's wartime role during toasts at an official lunch at Prague Castle. "We need to strengthen our ties with those countries who have not fallen victim to Communist totalitarianism and remained faithful to the main stream European Humanist tradition," he said.

Mr Havel also apologised for the "hesitant" nature of Czechoslovakia's first steps towards a market economy, promising that privatisation legislation would be tabled shortly. "The time has come for concrete deeds. The path we have chosen will not be easy but we realise it is the only one we can take."

Britain had a particular role to play in opening up economic opportunities and the Czech market for its product, especially of high technology goods. "Your special experience in the field of privatisation is of crucial importance to us," he added, welcoming assistance now being made available under the UK's £2.25m know-how consultancy programme.

On the Czechoslovaks' efforts to transform their economy, the PM emphasised the need for bold measures to liberate markets. While supporting EC membership for all the East European countries in the longer term, she insisted that the time scale would depend on how quickly stable regulations could be established.

In a veiled reference to the growing economic influence of Germany, President Havel added that his country was determined in future not to have its trading relations dominated by any one state. "We have undergone that experience before and it was not a happy one," he said.

Today Mrs Thatcher is scheduled to address the Czechoslovak Federal Parliament when she is expected to make a public apology for the failure of the Western powers to rally adequately to the country's aid both during the Munich crisis of 1938 and during the Soviet invasion 30 years later.

Food ultimatum for Gorbachev

By **Quentin Peel** in Moscow

THE city of Sverdlovsk, industrial capital of the Soviet Ural mountains, has issued an ultimatum to President Mikhail Gorbachev: supply us with food, or our factories will stop producing goods for the state.

An extraordinary address, spelling out a disastrous shortfall in meat supplies to the city, as well as sugar, cigarettes and other products, was sent by the Sverdlovsk Soviet of People's Deputies – the city council – to the Soviet leader, as well as to Mr Nikolai Ryzhkov, the Prime Minister, and Mr Ivan Silayev, premier of the Russian federation.

It coincides with new evidence of a looming meat shortage in Moscow as well, with only five days supplies of meat left in the capital city's stores.

Both reports underline the increasingly desperate state of the Soviet economy, described in the Soviet parliament yesterday by Professor Abel Aganbegyan, the leading economist, as "catastrophic".

Sverdlovsk, a city of some 1.5m people, boasting a major engineering and defence industry complex centred on Uralmash – the giant industrial combine once headed by Mr Ryzhkov – is regarded by many as a touchstone for conditions in the Russian heartland. Keeping it supplied with food is a crucial task for any national government.

In its address, the city council warned that they will suspend supplies from city factories if food orders from regions as far afield as Krasnodar, Lipetsk and Orenburg are not fulfilled. As for Moscow, 730 out of a total of 1,274 meat shops are no longer selling meat, and 750 are no longer selling sausage, according to Izvestia, the government newspaper.

At the beginning of last week, the city stores contained only 12,000 tonnes of meat, enough for five days' consumption.

On the brighter side, the capital's bread shortage seems to have eased in recent days, and a combination of cigarette rationing, with free prices for the best brands, has also replenished tobacconists' shelves.

However, Professor Aganbegyan, arguing in the Supreme Soviet in favour of the most radical plans for a 500-day transition to a market economy, warned that gloomy economic figures for the first eight months of the year underlined that the trend was getting steadily worse. He said there was a "catastrophic fall" in oil output, the country's largest single export revenue earner, which would mean a drop in revenues of $10bn (£5.4bn) over the next two years if it continues.

Ryzhkov: details on shortfall

He also warned that the budget deficit, supposed to be limited to Rbs60bn this year, was now running at double that rate, or Rbs30bn a quarter.

Figures produced by Gosplan, the state planning committee, for Prime Minister Nikolai Ryzhkov, show that there was a shortfall in deliveries by state enterprises to consumers of Rbs5.2bn in 1989, and Rbs8.2bn in the first eight months of 1990, or an increase in the shortfall of 58 per cent.

Although the drop in industrial production is officially put at only 0.7 per cent, the real decline is thought to be much larger once disguised inflation is taken into account.

On the housing front, only 34 per cent of planned housing was built in the first seven months of the year, and in the first nine months it will be only 50 per cent.

The outlook on the energy front is perhaps most worrying of all, with a predicted shortfall of 125m tonnes of fuel – including 50m tonnes of oil and 40m tonnes of coal for the year as a whole.

The Gosplan report predicts serious difficulties in petrol supplies, in meeting oil export commitments, and in supplying coking coal to steel plants.

EC opens up public procurement market

By **Lucy Kellaway** in Brussels

NEW rules that will force EC member states to open their markets in public purchasing to competitive practices, and which could result in large annual savings of up to Ecu20bn (£14bn), were yesterday finally adopted by industry ministers in Brussels.

Beginning in 1993, public buyers in the important sectors of energy, transport, telecommunications, and water, which until now were excluded from EC rules on procurement, will have to give a fair chance to suppliers in all member states.

The directive has been highly unpopular with third countries since it contains a "buy Europe" clause. This will allow buyers to prefer European bids so long as they are no more than 3 per cent dearer than the best bid from a third country.

The new rules will apply to all works contracts of over Ecu5m and to supplies contracts of Ecu400,000, except for telecommunications, where the threshold has been set slightly higher at Ecu600,000.

The passage of the directive almost completes the EC's ambitious legislative package to tighten up practices in all kinds of public procurement – where at present all but some 5 per cent of the demand is met by the member state itself.

Meanwhile, ministers from 11 member states – with Britain alone in opposition – yesterday gave their support in principle to the idea of introducing a levy on blank tapes in the Community, and instructed the Commission to come up with a proposal for a directive.

The UK is against any such levy, on the ground that it would be difficult and costly to collect and to distribute, and that most of the proceeds would go into the pockets of US performers.

Another measure on which the UK is also the strongest detractor – the European Company statute – also took a small step forward at yesterday's meeting. Although there is still much disagreement on the text of the statute, ministers appear willing to concentrate their efforts to getting agreement on it, and in the process appear to have abandonned the related 5th company directive, which has been a round for the last 20 years or more.

Both measures have proved difficult as they contain clauses on worker participation – a *bête noire* of the UK employers and a favourite in West Germany. The Fifth Company Law directive, which would make worker participation compulsory, is unlikely ever to be agreed in its present form. By contrast the Company statute would leave it up to companies to chose the sort of participation they wanted, going from a very weak version to a much stronger one. Even this is not acceptable to the UK, which would like a system more flexible still.

SPD is failing to make headway in opinion polls

By **David Goodhart** in Bonn

ELEVEN weeks before the first all-German elections which take place on December 2, opinion polls suggest that the opposition Social Democrats' ability to mount a convincing challenge to Chancellor Helmut Kohl's centre-right coalition is slipping away.

An all-German Emnid poll published at the weekend gave the centre-right CDU/CSU 45.5 per cent, a 12 per cent lead over the SPD. A poll by the ZDF TV station published yesterday gave the CDU/CSU 44 per cent, an 8 per cent lead over the SPD.

The effectiveness of Mr Oskar Lafontaine, the SPD's candidate for Chancellor, as a campaigner, and the volatility of opinion in East Germany, mean that a surprise catch-up cannot be ruled out. But currently the SPD seems fatally flawed by its continuing weakness in East Germany and the reluctance of voters in either Germany to blame East Germany's economic problems on the government in Bonn.

The East-SPD scored only 21.9 per cent in the free parliamentary elections last March. But the SPD hopes that that was merely a vote for the D-Mark, and did not signify underlying political preferences, have been dashed.

Last month SPD support in East Germany rose to 30 per cent, but in the latest poll it has fallen back again to 24 per cent.

The SPD faces further problems from a revival of the Greens in East Germany who now poll 10 per cent after their decision to merge with the Citizens Group which led last year's revolution.

The PDS, the former Communists, are also threatening to draw away some of the left-wing vote.

Hungary to convert military airfields

By **Paul Betts** in Budapest

HUNGARY is planning to convert former Soviet military airfields into a network of civil airports as part of efforts to turn the country into an important East-West air transport hub.

Senior Hungarian civil aviation officials said yesterday negotiations have started with the government over the future of some 50 military airfields, including six large Soviet air bases. They also said that Boeing and Lockheed, the two US aerospace companies, were also looking at one of the bases at Tokol, near Budapest, as a possible site for a new civil jetliner maintenance centre, they said.

Officials also confirmed plans to attract foreign investors to the main Budapest international airport. They said BAA, the former British Airports Authority, was well placed to play a role in its development. A central feature of the restructuring of the Hungarian aviation industry will involve the privatisation of Malev, the national carrier. Mr Tomas Deri, the new managing director of Malev, said privatisation was expected to start in 1993 and be completed by 1995.

The airline is also looking for Western partners and is planning to invest in new Western aircraft to renew its fleet of Russian airliners. Boeing and the European Airbus consortium are currently competing for a Malev order for three wide-body aircraft.

The airline reported a pretax profit of $23m (£12.4m) last year on sales of about $202m and expects to be in the black again this year. But Mr Deri said the airline was budgeting for a deficit next year.

Norwegian PM may resign over financial irregularities

NORWAY'S Conservative Prime Minister, Mr Jan P. Syse, already struggling to revive his declining popularity may be forced to resign following revelations of alleged irregularities, negligence and violations of Norwegian corporate law in his own companies' accounts, Karen Fossli writes from Oslo.

Mr Syse has publicly admitted that he had violated corporate law by not registering company accounts, for which there is no precedent of anyone ever being convicted. Technically, this can carry financial penalties and/or up to one year in jail.

"I regret the violation of (Norwegian) securities' laws in these companies," Mr Syse said yesterday. But Aftenposten, the leading conservative daily, was unmoved. It called for his resignation yesterday.

The Storting, Norway's parliament, currently in recess, is expected to address the issue when it reconvenes next Monday. But in the meantime, Mr Syse has sought to quell controversy by hiring two of Norway's foremost authorities in accountancy and taxation.

Portugal announces large capital investment plan for infrastructure

By **Patrick Blum** in Lisbon

THE Portuguese government has announced new capital injections of Esc34bn (£130m) in four state-owned transport companies, as part of a programme aimed at speeding up infrastructural development and improving the companies' financial standing.

The largest share will go to Brisa, the road construction and management company, which will receive Esc17.7bn, including Esc3.6bn to raise its capital and Esc5bn for new investments.

Caminhos de Ferros Portugueses, the state railway company, will receive Esc12.9bn for modernisation and financial support, and Metro, the underground public transport company, will receive Esc2.3bn for new investments. Carris, the Lisbon tramways and bus company, will receive Esc2.3bn.

The government is spending about Esc120bn a year on transport infrastructure, of which 60 per cent is earmarked for roads. Even in the main cities roads can be poorly maintained. It is part of a massive programme to modernise communications and help achieve a more balanced regional development.

But previous years of neglect still leaves Portugal with a badly and unevenly developed transport infrastructure.

Drug traffickers turn to Spanish markets

Concern grows at the rise in heroin and marijuana smuggling, writes Peter Bruce

FROM THE hills above Algeciras in southern Spain, not far from Comandante Juan Lara's office, the Rif mountains loom so large on the horizon it is hard to believe they are 8 miles away.

"People sometimes don't believe me when I tell them I can almost see it growing over there," says Mr Lara, chief of the big Guardia Civil barracks in the port.

"It" is marijuana. The Rif are in Morocco across the Straits of Gibraltar, which partly explains how Spain has become, in just the last two or three years, the chief entry point of narcotic drugs into Europe. These days Comandante Lara estimates that his force captures an average of 1,500kg of concentrated resin – hashish – from the Rif marijuana plants every month, more than double that of five years ago.

Most experts, though, believe that is just a fraction of the hashish getting through. And while the hashish gangs have settled upon the shortest route into Spain, Turkish heroin flows in through Barcelona port and, most worrying of all to the Spanish authorities, the tobacco smuggling families of Galicia have turned their sophisticated distribution networks to Colombian cocaine.

European Diary

Spain

According to figures compiled by Interpol, 39 per cent of the 171 tonnes of heroin, cocaine and hashish seized in Europe (including Turkey) last year were taken in Spain. The 713kg of heroin seized last year was bettered only by Turkey and represented a 57 per cent increase on 1988 takings.

The 1.8 tonnes of cocaine found by police was double the amount captured in France and nearly three times the Italian haul. In the meantime, some 600 Spaniards are expected to die this year through drug abuse. Only 82 addicts died in 1982. The Spanish heroin market alone is estimated to be worth $1bn a year.

Partly, the increase in quantity of drugs found by police is a measure of the extra effort being put into combating trafficking. "We are getting better," says Mr Javier Zaragoza, leader of a team of five public prosecutors established in Madrid last year to concentrate on smashing drug rings and the laundering of drug money.

Mr Zaragoza and his colleagues around the country have had some spectacular successes recently. In June, he and a Madrid judge led a raid on a Galician drug ring that netted nearly 20 people, including a leading Madrid socialite, suspected of working with the notorious Medellín cocaine cartel in Colombia.

A shared language makes Spain a perfect entrepôt for South American cocaine into Europe. Soon afterwards, a dozen or so members of the national police force in Algeciras were taken into custody on suspicion of living off the spoils of the hashish trade. In July, a police swoop in Granada netted 10 people, including a lawyer, and a Grenadine judge has been suspended pending an investigation into his alleged links with the ring. In late August police in Madrid seized 77kg of heroin, their biggest ever haul.

Official response to the twin crises of trafficking and addiction, though slow, is speeding up. While possession of narcotics is still not a crime in Spain, the government is considering tightening the law. Archys, Madrid's most famous discotheque, was shut down in July in the face of overwhelming evidence that many of its clients were buying and snorting cocaine on the premises.

But Madrilenos say although the toilets of most of the capital's discotheque are still jam-packed with people taking cocaine, the arrests may be having an effect. While the street price has remained steady for years at around Pta12,000 (£63.82) a gram, there are signs that it may be going up. Jokers in Marbella, the swish Costa del Sol resort, say tourists are being driven away by high drug prices, not necessarily by poor facilities and polluted beaches.

Drug trafficking is becoming more dangerous. Mr Zaragoza confirms that any sudden display of great wealth – a grand new house or car – in Spain these days could lead to some form of investigation by police. With official access to bank accounts a mere formality in Spain now, the authorities have the power to freeze the assets of suspected traffickers or money launderers. Citizens, too, have forced the police to act on a number of occasions in big cities this year after forming angry protests in front of the apartments of known dealers.

But it is an almost impossible job. A recent survey shows that only two of the dozens of luxury marinas along the Costa del Sol have any kind of police or customs presence and the Spanish claim that tax-exempt companies in Gibraltar have become a haven for laundering drug money. The Gibraltarian authorities strongly deny this, but concede that close supervision of the some 30,000 offshore companies registered on the Rock is difficult.

Spanish suspicions are nevertheless strengthened by statistics which show that Gibraltar-registered companies are now the biggest source of real estate investment in Spain.

"This is a Spanish border now but one day soon it will be a European border," says Comandante Lara. Most of the drugs landed on Spanish coasts or at its international airports probably find their way into the rest of Europe. But the Comandante's men already spend 80 per cent of their time monitoring the drugs trade and even though the Guardia Civil is soon to be equipped with a naval arm, the European Community's open borders planned for 1993 are not going to make life any easier.

INTERNATIONAL NEWS

Pakistan fears return to army rule

Politics are daily growing more bitter, David Housego reports

PAKISTAN'S worst fears may not yet materialise, but there is already an uneasy foreboding of impending political deadlock, and of a country edging back to the abyss of military rule.

"We could be walking into the trap," says one senior minister. He had believed that elections on October 24 would give legitimacy to last month's dismissal of Prime Minister Bhutto - and would vote in an army-backed alliance of conservative and Moslem parties. The risk now is that the election could confirm the popularity of Ms Bhutto, polarising the country further and hastening army intervention.

Ministers, officers and diplomats are sure President Ghulam Ishaq Khan and the army leaders will not tolerate Ms Bhutto's return to power. They accepted her two years ago, but evidence is growing that they sought to remove her between August and October 1989 in a move they abandoned.

They believe that the "corruption, nepotism and incompetence" of her administration has deprived her of the right to be Prime Minister. A senior officer says some of his colleagues are saying "she must be stopped at any cost", though the means and timing are left vague.

Islamabad is rife with rumours – that the interim administration of Prime Minister Ghulam Mustafa Jatoi will resign, that the army of Gen Aslam Beg faces internal challenges, or that polls will be postponed. Most are unfounded. But President Ghulam Ishaq has felt it necessary to repeat that elections will be held on time.

Since sacking Ms Bhutto on August 7, the plans of President and army have gone awry in a way reflecting their own mistakes and Ms Bhutto's determination. The President initially lost the high moral ground by nominating an interim cabinet including some ministers with a reputation no better than Ms Bhutto's colleagues.

Since then, the new government's attempt to discredit Ms Bhutto and her ministers through corruption charges filed in tribunal has backfired. Cases have been ill-prepared, there have been disputes on which to put before the courts, and many charges, when presented, have seemed insubstantial. Most humiliating, the Lahore tribunal last week threw out a case against Mr Jehangir Badr, former Petroleum Minister, and one of the administration's main targets.

Ministers concede that the handling has been "incompetent" and the President has suffered because he is seen to have lacked firm evidence when he sacked Ms Bhutto's government, largely for alleged corruption. In a bid to salvage the exercise, the President last week brought Mr Rafi Raza, Production Minister and a close adviser and lawyer, into the small group that will determine what charges will be brought and when.

The government has laid itself open to accusations of being one-sided in only bringing charges against Ms Bhutto's People's Party (PPP). "The public feel this is unfair and a farce," says Mr Salman Taseer, a senior PPP official in Lahore. He has publicly raised 100 allegations of malpractice against Mr Nawaz Sharif, the former chief minister of the Punjab and now head of the IJI, the conservative Moslem alliance. So far, none of them have been taken up in the tribunals.

Also damaging to the new administration have been the squabbles among different IJI factions what candidates will figure in next month's polls. These reflect leadership struggles within the alliance and may subside as the campaign gets going. But they show little cements the alliance except dislike of Ms Bhutto.

Ms Bhutto has rallied support more strongly than seemed possible three weeks ago. She has won respect for her determination; she has drawn sizeable crowds in the Punjab and Sindh. Only eight MPs have left her. Party officials, dispirited at the outset of the contest, now talk as though they could get in striking distance of a majority in the new Assembly.

They dislike the way Ms Bhutto has made the party assume the defence of her husband, Mr Asaf Ali Zardari, widely accused of corruption, and of his family. They object to Ms Bhutto's family standing for 10 seats in Sindh, her own province. But they also recognise the government is trying to discredit Ms Bhutto and the party, and they must hang together. Just as PPP leaders see their political lives at stake, so they are ready to throw their weight into the electoral battle.

The President's inner circle still believes it can win. Their logic is that the PPP won only 38 per cent of the votes in the 1988 election but almost half the seats because the Opposition was divided. This time, the IJI hopes to put up only one candidate against the PPP in most constituencies. The government believes that by polling day, Ms Bhutto and her ex-ministerial colleagues will have been damaged by evidence of corruption put before the tribunals and the public.

They are working on the assumption that elections will go ahead and that the conservative alliance will have a majority in the new Parliament. If this is so, they hope to marginalise the PPP further by urging the tribunals to disqualify Ms Bhutto and her close colleagues from standing for election or holding public office for a number of years.

Politics in Pakistan grow more bitter. Ms Bhutto began by accusing military intelligence of overthrowing her. She has now swung her fire towards the President. If she seems anywhere close to winning half the 217 seats in the new Assembly, many diplomats see the army intervening. "If she looks like getting 80-100 seats and is a contender for Prime Minister, elections could be postponed," one says.

A senior minister in Pakistan's army-backed caretaker government said yesterday that the US ambassador to the country should be recalled and replaced, AP reports from Islamabad.

A speech Mr Robert Oakley, the US ambassador, made last week in Washington has caused a furore in Pakistan, generating a flurry of newspaper articles accusing him of interference. "My private opinion is that they should send someone more sensible," Mr Zahid Sarfraz, the Interior Minister, said.

In his speech to the Asia Society, Mr Oakley said the special tribunals set up to investigate charges of political corruption should not be restricted to ousted Prime Minister Benazir Bhutto and her former government. He said the tribunals also should probe the political practices dating back to 1985, when many of Ms Bhutto's opponents governed the country.

Banker given immunity in Li trial

By Angus Foster in Hong Kong

A SENIOR merchant banker with Wardley Holdings, a subsidiary of Hongkong and Shanghai Banking Corporation, yesterday admitted he had been given immunity from prosecution in the corruption trial of Mr Ronald Li, former chairman of the Hong Kong Stock Exchange.

Mr Keith Holman, a director of Wardley, is a key witness for the prosecution in the case. He has been given immunity from prosecution by the colony's legal department.

Mr Holman also said his decision to sell Mr Li 500,000 Cathay Pacific Airways shares before the company's stock market listing in 1986 was intended as "a benefit" for Mr Li.

Wardley was joint adviser with Baring Brothers to Cathay Pacific's flotation. The court has heard that Mr Li telephoned Mr Holman a week before the listing and asked for shares. Mr Holman consulted his chief executive, Mr John Bond, before agreeing to sell the shares from Wardley's own preferential allocation.

Wardley made only one other special sale of shares from its own allocation, to Hang Seng Bank, another Hongkong Bank subsidiary.

Mr Holman was giving evidence at the start of the third week of the trial of Mr Li, who has pleaded not guilty to two charges of accepting shares in Cathay Pacific and Novel Enterprises, a Hong Kong knitwear company. Mr Li is charged with accepting shares in the two companies as a reward for assisting with, or not delaying, the two companies' listings.

Mr Holman said selling the shares to Mr Li was not a reward for the listing, but was a benefit. "To the extent this would be a benefit to him, yes, that was the case," he said.

Riot police arrest a demonstrator in Manila yesterday after a protest against US bases turned violent outside the US embassy

Aquino urges US troops to go home

By Greg Hutchinson in Manila

PRESIDENT Corazon Aquino yesterday urged "an orderly withdrawal" of US forces from the Philippines and said negotiations beginning today with the US on military bases there were aimed at redefining Philippine-US relations.

Anti-US protests by students and workers erupted in Manila yesterday. Several demonstrators and policemen were injured in clashes near the US embassy between Philippine security forces and protesters.

Manila issued a notice to Washington last May terminating an agreement regulating US use of six bases north of the capital from September next year. "The time has come to close the books on a colonial vestige," Mrs Aquino stated. "Our government will operate in the framework of redefining Philippine-US relations."

The Philippine currency yesterday fell by a full peso to 26 to the dollar, its single largest fall, the Bankers Association of the Philippines said. The previous rate of 25 to the dollar was set on August 22, staying that way until yesterday.

The new reference rate for the peso was set after a parcel of $400,000 changed hands in a market where commercial banks are holding on to dollars despite increasing demand.

Economists are talking of a rate as low as 30 pesos to the dollar by early next year. Already, the black market rate is nudging this level as dollars become short.

The Philippines, saddled with a $27bn (£14.6bn) debt, suffers growing budget and current account deficits.

The peso is seen responding to growing pessimism about the economy's fundamentals and renewed political uncertainty as the country begins negotiations on a possible treaty phasing out the US military bases.

Kuala Lumpur takes stake in naphtha cracker

By Lim Siong Hoon in Kuala Lumpur

THE MALAYSIAN Government has agreed to place a 30 per cent equity stake in the country's third petrochemicals project, a M$1.3bn ($500m) naphtha cracker. All three projects are to be installed between 1992 and 1995 at a total cost of M$3.6bn.

In a bid to attract foreign investments to build the industry, the Government is making available its domestic market to companies from Australia, Britain, Finland, Japan, Taiwan and the US.

The three plants are to produce up to 700,000 tonnes of polyethylene and polypropylene, though the domestic polyolefin market is thought to be about 200,000 tonnes.

Malaysia remains keen, even in the face of present high raw material costs, to enter the increasingly crowded field of petrochemical production.

Aside from exports, the hope is that the market will continue to grow at the 8 to 10 per cent of recent years.

Backed by raw material supply and equity from Petronas, the state oil and gas group, Japan's Idemitsu and Finland's Neste are building the first petrochemical plant which will produce 80,00 tonnes a year of polypropylene. The plant will draw propane feedstock from their joint venture methyl tertiary butyl ether facility.

Petronas, Idemitsu and British Petroleum have separately agreed to a 500,000-tonne ethane cracker and 300,000-tonne polyethylene plant.

Higher oil prices triggered by the Gulf crisis added to doubts about the viability of a third project, a naphtha cracker planned by Taiwan's Chao Group and Himont of Italy's Montedison.

But without domestic equity backing and promises of feedstock, the two groups risk selling most output on export markets as well as sourcing naphtha from the Middle East or North Africa.

The project has now moved forward again, thanks to a 30 per cent equity support from Permodalan Nasional, a state-operated investment trust.

The project was also boosted by equity commitment from BTR Nylex, the Australian conglomerate as well as by a government decision to install a 100,000-barrels-a-day heavy crude train to its Malacca light crude refinery.

Despite concerns about domestic overcapacity, the Government is allowing the four-member consortium to sell domestically half of its 200,000 tonnes in polyethylene and polypropylene output.

With this backing, the consortium is relying on early onstream production – in 1993 – to move into the market ahead of its rival.

Last Friday, the Taiwanese, who head the consortium, named Stone and Webster of the US and Japan's JGC Corporation as engineer and contractor to the project. Petronas and its partners have begun to prequalify contractors.

Malaysia's willingness to allow rival groups into the field arose partly from the premise that the Asia-Pacific market is growing more rapidly than elsewhere.

It sees comparative advantages in available domestic raw materials and in the country's proximity to Pacific markets. However, Thailand and Indonesia have similar ambitions.

● Foreign companies are now permitted to set up electricity plants in Indonesia, Minister of Mining and Energy Ginandjar Kartasasmita was quoted by Antara News Agency as saying. The move is an attempt to overcome a shortage in government funds for electricity supply.

Talks in China 'paved way for Cambodian meeting'

By Roger Matthews in Bangkok

SECRET top-level talks between China and Vietnam earlier this month are believed to have paved the way for a meeting in Bangkok yesterday of Cambodia's warring factions, the first step in implementing United Nations peace proposals.

China has determinedly opposed Vietnam's invasion of Cambodia in late 1978, first launching a border war in 1979 and then supporting and supplying the notorious Khmer Rouge in its 11-year guerrilla struggle against the Hanoi-backed government in Phnom Penh.

Reports from Hanoi and Peking yesterday indicated that Mr Nguyen Van Linh, secretary general of the Vietnamese Communist Party, visited China during the first week of September. This was soon after the permanent five members of the UN Security Council, which include China and the Soviet Union, had agreed on a Cambodia peace formula.

Part of the agreement was that a quadripartite Supreme National Council should be set up as the symbol of Cambodian sovereignty in preparation for the UN to supervise the holding of free elections. Last week in Jakarta the Cambodia government headed by Mr Hun Sen, the prime minister, agreed with the Khmer Rouge and the two non-communist groups headed by Prince Norodom Sihanouk, the former head of state and Mr Son Sann, once prime minister, on the creation of the Supreme National Council.

Comprised of 12 members – six from the Phnom Penh government and two each from the three guerrilla factions – the initial tasks for the Supreme National Council will be to decide on Cambodian representation at the UN and on whether Prince Sihanouk should be invited to chair the meetings. No progress was reported yesterday but the council members have agreed to meet again today.

The apparent rapprochement between China and Vietnam offers the best hope that some, if slow, progress will be made. The logic of the two countries moving closer together has appeared irresistible over the past two years as both have staunchly opposed the sort of political changes being implemented in Eastern Europe and the Soviet Union.

Vietnam, which had been forced to withdraw its troops from Cambodia a year ago primarily for economic reasons, has subsequently faced even deeper cuts in Soviet aid and the repatriation of 200,000 workers from formerly friendly communist countries. The Chinese leadership has also had to warn of at least another two years of economic hardship and, like Vietnam, would like better access to Western capital, markets and technology.

Khieu Samphan, Khmer Rouge leader, Hun Sen, prime minister in Phnom Penh, (right) and Prince Norodom Ranariddh, leader of the Sihanouk faction, (middle left) enter the Cambodian embassy in Bangkok yesterday

NZ pact with unions limits wage rise demands to 2%

By Dal Hayward in Wellington

MR MIKE MOORE, New Zealand's new Prime Minister, yesterday struck a deal with the Council of Trade Unions under which it is to limit wage demands to just 2 per cent for the coming year, less than half the current rate of inflation.

This will allow the Reserve Bank, the country's central bank, to relax monetary policy so home mortgage interest rates can fall.

Any wage rise above 2 per cent will be linked to increased productivity.

The move is an attempt by the government to boost its chances in the October general election. High mortgage rates, now at about 15 per cent, have attracted considerable public criticism.

The Reserve Bank is committed to pursue the target of only 2 per cent inflation next year and nil inflation by 1992. In doing this, it has kept a tight grip on monetary policy and money supply, thus helping keep interest rates up. Inflation is now 4.5 to 5 per cent.

Late last week, Mr Moore and Mr David Caygill, Finance Minister, learned the central bank was basing its future policy on the assumption of a 5 per cent wage increase in the next bargaining round.

The Prime Minister called in Council of Trade Union leaders, who represent 400,000 workers, with a result described by Mr Ken Douglas, CTU president, as "an agreement on growth strategy".

Employers and economists gave a mixed reaction to the agreement. Mr Jim Bolger, the opposition leader whose National Party still has a substantial opinion poll lead, called it "a panic move".

The government has pledged to cut the projected NZ$2.2bn deficit next year and consult with the trade unions before any big spending cuts are implemented.

Mr Douglas said the agreement safeguarded existing jobs and the wages of lower-paid workers. But CTU leaders cannot order individual unions to accept the lower wage demand; they can only persuade.

A further 100,000 workers are not covered by the CTU and they may ignore the agreement, though Mr Douglas is confident most of the CTU-affiliated unions will accept the 2 per cent target.

Dr Donald Brash, governor of the Reserve Bank, said the pact gave scope for easing monetary controls. He was sure interest rates would fall without the bank increasing the money supply.

Wholesale interest rates eased in response. Government bond yields fell by about 20 basis points. The New Zealand dollar also dipped; in the stock market, the Barclays Index – before confirmation of the wage accord – rose 22.7 points to close at 1,560.46.

Mr Caygill said the expected continuing fall in interest rates, and the wage restraint, had been achieved without use of government regulations.

Mr Moore has pledged the projected deficit will be cut with minimum impact on state health and welfare spending.

Mr Caygill declared that NZ$750m outstanding in tax payments would help reduce the deficit, while a 3 per cent increase in the efficiency of government departments would save another NZ$100m.

Second anniversary of brutal suppression of democracy movement

Burmese troops stand by to crush demonstrations

By Roger Matthews

LARGE forces of troops were deployed yesterday in Rangoon and Mandalay, the two largest cities in Burma, to deter demonstrators from marking the second anniversary of the army's brutal suppression of the mass pro-democracy movement.

Tension has been building throughout this month as the ruling State Law and Order Restoration Council (Slorc) has made it ever more clear that it has no intention of handing over power to the National League for Democracy (NLD) which won an overwhelming victory in national elections on May 27.

The present regime, nominally headed by General Saw Maung, came to power on September 18, 1988, promising democracy. Its first act was to open fire on massed demonstrators in several cities, killing and wounding thousands.

Slorc has continued to arrest leaders and activists of the NLD despite the election result which gave the party over 80 per cent of the contested seats. Aung San Suu Kyi, the secretary general of the party who is the main symbol of resistance to the regime, and former General Tin Oo, its chairman, have been under detention for more than a year.

Thousands more political activists are in jails cleared of common criminals to make way for the influx. This month other members of the NLD executive committee have been arrested, including its acting leader. Burmese employees of foreign embassies have also been detained.

Speculation is growing that Slorc may be preparing to declare the NLD an illegal organisation, thereby ending any hope that the elected parliament might eventually convene for the first time. The army has refused to admit a role for the elected representatives other than participating in discussions on the writing of a new constitution at some unspecified date.

Diplomats in Rangoon say that popular pressure has been growing on the NLD leadership to mount some sort of challenge to Slorc. In Mandalay earlier this month two monks and two students were shot by troops during demonstrations and because of the huge troop presence in the capital it is thought likely that the country's second city could be the main focus for dissent.

Slorc has in the past week accused foreign powers of instigating the demonstrations, claiming that they wanted to exploit Burma's wealth. At the same time Slorc has been pleading with the United Nations Conference on Least Developed Countries, meeting in Paris, for greater capital and technical assistance.

Most of Burma's hard currency earnings in the past two years have come from oil companies signing exploration licences and through selling off its teak forests to Thai logging companies. It has failed to persuade former donors to lift the aid embargo adopted following the crushing of the pro-democracy movement.

Japan, which contributed about $250m a year, has again protested to Rangoon about the arrest of NLD leaders and has said it will not resume full aid flows until Burma has a a government that enjoys the support of the people.

Export earnings have fallen by a third in the past 10 years, and Burma is not servicing its foreign debt. Reserves have again tumbled to very low levels. The windfall it received by selling off part of the grounds of its embassy in Tokyo is understood to have been spent mainly on arms and ammunition.

Slorc has also been forced to reduce further the official ration of petrol from six gallons to four gallons a week. On the black market, petrol last week traded at as much as $40 a gallon at the free market rate of exchange for those few people with private cars. Before the Second World War Burma was one of Asia's largest exporters of oil and still has substantial reserves.

UK hostages in Lebanon 'may be freed soon'

BRITISH hostages in Lebanon could soon be freed, but Americans will remain captive, a leader of the pro-Iranian Hizbollah (Party of God) said in remarks quoted by Iranian Radio, Reuter reports from Nicosia.

Mr Hussein Musawi, a senior Hizbollah official, said he was optimistic about the release of Britons. But he did not expect any US hostages to be released in the near future.

Hizbollah denies links with kidnapping, but is believed by the West to be an umbrella body for groups holding 12 Westerners in Lebanon.

The three Britons among 12 hostages thought to be held in a Shi'ite Moslem district of Beirut are Mr John McCarthy, a journalist, Mr Terry Waite, the envoy of the Archbishop of Canterbury, and Mr Jack Mann, a retired airline pilot.

Lord Caithness, British Forein Office minister for Hong Kong affairs, visits a dormitory for Vietnamese boat people yesterday

Treasury seeks scope to cut rates

By Peter Riddell, US Editor, in Washington

US TREASURY officials are strongly resisting any joint statement, at the meeting this weekend of Group of Seven finance ministers and central bankers in Washington, which would appear to limit the scope for an early cut in US interest rates.

The US differs strongly from other leading members of the G7 industrialised countries on the priority of maintaining a tight anti-inflationary monetary policy and high interest rates.

The International Monetary Fund has already shown support for continuing a tough anti-inflation policy.

The differences emerged last week at preparatory talks among senior financial officials in Paris.

Mr Nicholas Brady, US Treasury Secretary, who is to chair the G7 meeting, has repeatedly called for a cut in US interest rates so as to avoid a recession. He has also said he expects any budget deficit reduction package to be followed by early action by the Federal Reserve.

The link between a "credible multi-year" package to cut the budget deficit and an easing of monetary policy was reaffirmed last week by Mr Alan Greenspan, Fed chairman, though some Fed policy-makers remain concerned about the need to keep a tough anti-inflationary stance.

The issue is pressing because the Bush administration and Congressional leaders hope that a budget deal is imminent, provided differences over tax measures and cuts in Medicare health programmes can be resolved.

A senior US Treasury official accepted there were differences in the G7 over interest rate policy. He said the views reflected varying growth experiences, the US being much concerned about the possible impact of higher rates.

The US view is that the rise in oil prices should have only a temporary impact, and that too high a priority should not be placed on reducing inflation, compared with sustaining growth. The official said the differences in part reflected contrasting views about why long-term US bond yields had risen.

The main European view is that the increase reflects a change in inflationary expectations. The US Treasury argues that the increase represents the markets' response to the Gulf crisis, to the higher estimates of the scale of the US savings and loan industry problem, to the growing US deficit and the Treasury's heavy funding needs.

On this view, any improvement in the budget outlook should have a favourable impact on bond yields and the interest rate outlook.

● US business inventories/stocks rose by 0.7 per cent in July, while sales fell by 0.5 per cent, the Commerce Department reported yesterday, confirming the growing view that the economy has slowed as far as the brink of recession.

The ratio of inventories to sales rose to 1.49 in July from 1.47 previously. However, the overall level of business inventories is not high by historic standards, comparing with the start of previous recessions.

Record debt cut agreements predicted

By Stephen Fidler

COMMERCIAL banks are expected to agree to a record volume of debt reduction agreements with developing country debtors this year, according to forecasts released today by the Institute of International Finance.

The Washington-based mouthpiece for international banks forecasts that voluntary bank debt reduction will reach $21.9bn this year – compared with $12.4bn last year and the previous high of $17.3bn in 1988.

The predicted record this year reflects expected large-scale privatisations via the use of foreign bank debt, and deals completed under the US Treasury's Brady plan, such as that for Mexico.

Mexico's debt is seen as being reduced by the greatest amount – the equivalent of $8.4bn – while that of Argentina is to shrink by $5.6bn, that of Brazil by $2.7bn, and that of the Philippines by $1.9bn, according to the forecast, which includes only formal debt reduction arrangements.

In a related development, the IIF today blames the Brady plan, which aims to lower the burdens of problem debtor countries, for encouraging arrears in interest payments to banks by developing countries.

Its figures show arrears having trebled from $7bn at the end of March 1989 to $22bn now. It called on the International Monetary Fund and the World Bank not to lend to countries unless they have stopped building up interest arrears to bank creditors.

Mr Horst Schulmann, IIF managing director, said this indicated "a strong element of moral hazard" in the debt strategy.

The IMF and World Bank needed to make clear that they will not provide finance to countries until these stop adding to arrears and agree with creditors a programme to eliminate arrears.

In another forecast, the IIF estimated that this year, for the first time, developing countries will owe more to official creditors, such as western governments, than to banks. Of the total $1,300bn owed at end-1990 by the 50 main Third World debtors, $605bn will be owed to official creditors, $577.5bn to banks and $118.1bn to other private creditors.

Mr Schulmann called on government creditors to join banks in providing debt relief – at least interest rate concessions and a lengthening of the rescheduling period – to certain countries making economic reforms.

Some important middle-income countries have little to gain from the present official strategy because a small share of the debt is owed to banks. In these cases, it would be unacceptable to ask banks to provide debt relief in order to bolster the position of official creditors, he said.

He also urged more funding for the Brady initiative.

The points are made in letters to the chairmen of the two important committees of the IMF and World Bank, Mr Michael Wilson, the Canadian finance minister who presides over the Interim Committee of the IMF, and Mr Bernard Chidzero, the finance minister of Zimbabwe who presides over the IMF-World Bank Development Committee.

The committees meet in Washington next week.

Europeans to join tax moves on multinational corporations

By Peter Riddell

US AND EUROPEAN tax officials are to co-operate more closely in an effort to deal with tax avoidance by multinational corporations through the manipulation of transfer prices in their internal operations.

Mr Nicholas Brady, US Treasury Secretary has endorsed a UK and West German call for a multilateral approach to the problem.

In a letter to Mr John Major, Chancellor of the Exchequer, Mr Brady expresses support for a combined effort by the UK Inland Revenue and the US Internal Revenue Service to help measure the scope of the problem, devise possible solutions and begin to implement them. He has urged Congress to support an international approach.

The UK/West German call was made in response to threatened action by the US House of Representatives Ways and Means Committee against foreign-owned US companies, notably Japanese and South Korean distributors of cars and other consumer durables.

The committee has accused such companies of manipulating internal transfer prices to cut their US subsidiaries' profits and so their US tax liabilities.

Mr Brady argues that a multilateral approach, including West Germany and other concerned governments, would yield benefits for each participant.

Britain and West Germany have sought to deflect any unilateral US action by proposing a multilateral effort.

Menem's deepest cut of all

John Barham in Buenos Aires on the new round of adjustments to tackle the triple economic evils

IS ARGENTINA'S Government finally getting serious about tackling the country's triple evils: an undisciplined public sector and its two ugly offspring – persistent inflation and severe recession?

Earlier this month, President Carlos Menem put his name to a further set of decrees that comprise yet another round of "audacious" adjustments. In March, his Economy Minister, Mr Antonio Erman Gonzalez, hauled Argentina out of the abyss of hyper-inflation with promises of "painful and grave" policies to hack the public sector down to size.

But he shrank from cutting too deeply. That is why monthly inflation edged back to 15.3 per cent in August, up from 10.8 per cent in July. Mr Gilberto Montagna, a prominent industrialist, commented: "Announcements are generally never followed up and for this reason we go from adjustment programme to adjustment programme."

As each policy blockbuster turns into a damp squib, confidence withers and the economy sickens, requiring further "severe" adjustments, and so on. The Government has avoided drastic cuts by balancing its books with imaginative accounting methods and printing billions of australs. But fiddling public finances has created intractable recession, punctuated by outbursts of hyper-inflation and rioting.

Since the Government has now exhausted nearly all sources of credit, it must start to cut spending and pay existing debts. To do that, Mr Gonzalez must run a budget surplus equivalent to about 6 per cent of gross domestic product, or $4bn a year, to buy hard currency from Argentina's private sector exporters. That is an awesome challenge and few expect Mr Gonzalez to be entirely successful.

Wisely, the minister has not spelled out what savings he expects from the reform by when. He does claim to have already cut spending by $4bn in less than a year.

The International Monetary Fund (IMF) and World Bank have promised more loans, but only if they are convinced that he is making progress in restructuring the economy. Mr

Carlos Menem: signed 'audacious' adjustments

Gonzalez now promises to:

● Assume responsibility for state companies, which have so far eluded control. They lost $5.5bn in 1989. He will also clamp down on overspending by local government. Argentina's impressive privatisation plans will be accelerated. A detailed privatisation timetable is to be published by the beginning of November.

● Rationalise public sector employment by renegotiating wage and employment contracts, enforcing early retirement and eliminating temporary employment. Government agencies must present a timetable for shedding staff within 30 days.

● Government suppliers owed some $8bn will be paid with 10-year bonds. The bonds, some of which will only begin yielding interest in 18 months, will add about $640m a year to the Government's existing $4bn annual interest bill.

● The central bank promises a severe liquidity squeeze. Interest rates will remain heavily positive and the austral will continue to strengthen.

● A committee of senior Economy Ministry officials is to ensure the cuts are carried out on time.

Rising unemployment, confrontation with militant public sector unions and private sector bankruptcies are the predictable costs of implementing these policies. Argentina has been in recession for a decade already: gross domestic product has fallen by 10 per cent since 1980 and manufacturing output has fallen by 21 per cent.

Exports are the sole survival option for many companies, but the overvalued austral makes exports unprofitable. Inflation increased by 1,697 per cent in the last 12 months, but the austral has been adjusted by less than half that amount, doubling production costs in dollar terms. Yet the austral must rise further as a consequence of the central bank's awesome liquidity squeeze and dwindling demand for imports.

Free markets are a central feature of government policy. Messrs Menem and Gonzalez are reducing trade barriers, privatising moribund state companies and abolishing overt and covert subsidies to private companies.

Adjusting to free markets is difficult at the best of times. Making the transition in Argentina's present condition will be traumatic, particularly since companies cannot absorb workers shed by the public sector.

Mr Carlos Helbling, vice president of FIEL, an economic think-tank, pointed out that the policies must produce results soon. The political cost of imposing further austerity will escalate as campaigning begins next March for gubernatorial and congressional elections due in September 1991.

Mr Gonzalez has lost much of the support he gained by subduing hyper-inflation. His enemies in business, trade unions and within the Government are demanding policies that revive the economy. Of course, reflation now would simply become uncontrollable inflation.

But President Menem is keenly aware of the mounting social and political cost of adjustment. Fear of unrest is a constant theme of political debate.

But if Mr Gonzalez keeps his word and shows that adjustment is for real this time, he will be taking a long overdue step towards restoring the balance of Argentina's shattered economy and winning back the confidence needed to foster investment and growth.

Washington's mayor spared second trial

By Lionel Barber in Washington

FEDERAL prosecutors yesterday announced they would not seek a retrial of Mayor Marion Barry of Washington on drug and perjury charges.

This is an admission of defeat for prosecutors who spent several years and several million dollars investigating Mr Barry, one of the best-known black US politicians.

The retreat falls short of a total vindication for Mr Barry. A jury acquitted him last month of one charge and was deadlocked on 12 others, but the mayor still faces sentence on October 26 for cocaine possession. His political career is all but finished.

Before the trial began in June, the mayor announced he would not run for a fourth term. The victory last week by Ms Sharon Pratt Dixon, a political novice, in the Democratic Party's mayoral primary, amounted to a defeat for the Barry political machine.

Mr Barry, who has switched formally from Democratic to independent, said he will run for a seat on the city council in the November election.

Key reformer leaves Mexican ruling party

By Alan Robinson in Mexico City

MEXICO'S ruling Institutional Revolutionary Party (PRI) closed ranks yesterday after the resignation of Mr Rodolfo Gonzalez Guevara, a key reformer and head of the party's "Democratic Current."

Mr Gonzalez Guevara, 44 years a member of the PRI and one of the most respected Mexican politicians, said he was convinced that "the sectoral structure of the party is the main impediment to its democratisation."

He said the 14th national assembly that approved party reforms earlier this month was "PRI's worst masquerade in its long history."

The sudden resignation is a sharp blow to hopes of reforming the party from within. Many party leaders praised Mr Gonzalez Guevara's integrity and long political service, but questioned his judgment in leaving the PRI which, they said, "is making an effort to widen the nation's democratic life."

The party old guard could not conceal its delight at Mr Gonzalez Guevara's departure. "I'm very pleased," said Mr Fidel Velazquez, the PRI's 90-year-old labour leader.

Mr Gonzalez Guevara, a former Mexican ambassador to Spain and once president of the party in the federal district, seems convinced that the PRI is beyond reform and is best combated from the outside.

He said he would not join an opposition party, but left open the possibility of forming a new party.

He stressed that other members of the reformist wing of the party would remain within the PRI, "but I have no reason to continue as a member," he said.

His criticisms of PRI abuses and his arguments that party and government should be separated earned him furious attacks from the party faithful. There were repeated calls for his expulsion.

In March President Carlos Salinas de Gortari told the party it should accept "currents of criticism."

However, he had changed his mind by the 14th PRI assembly when he devoted three paragraphs of his closing speech to a tirade against "internal critics."

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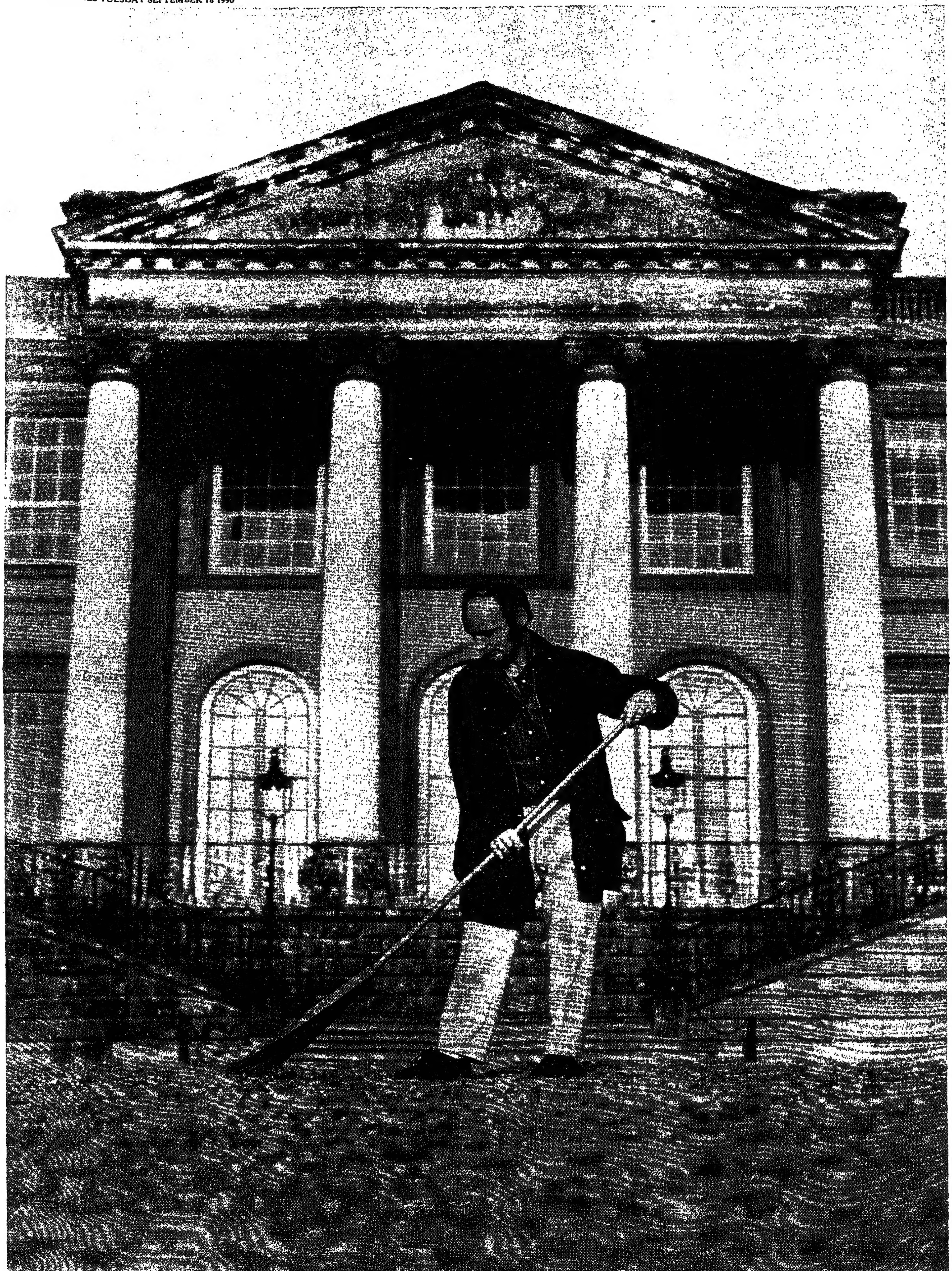

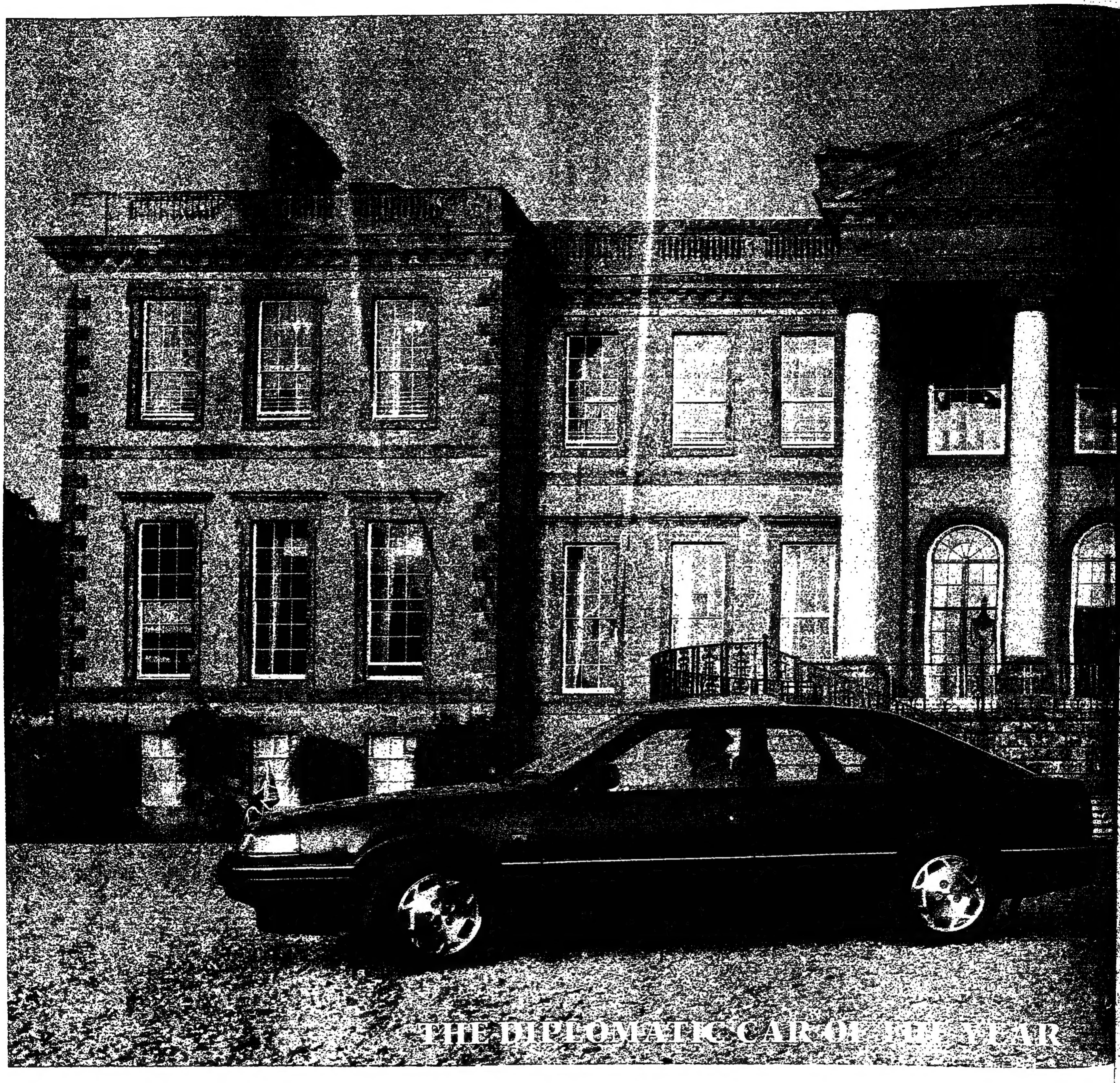

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UK NEWS

Government faces criticism from environmentalists over grant distribution

Alternative power fails to win aid

By David Thomas, Resources Editor

A GOVERNMENT scheme to promote renewable energy projects has been far less successful than had been expected, Ministers will disclose today, in an announcement likely to be greeted with anger by environmentalists.

Renewable energy projects, *such as the* use of wind or waves to generate electricity, are likely to become increasingly important on environmental grounds in the light of growing concern about the burning of fossil fuels.

As part of the extensive reorganisation of the electricity industry before its privatisation, the Government introduced a special levy to promote non-fossil fuel power production. The levy, most of which goes to support nuclear power, was also aimed to subsidise renewable energy sources. The levy, on all electricity bills, was set from April at 10.6 per cent.

The Department of Energy said earlier this year that it was considering allocating some of the levy to about 300 renewable energy projects which could contribute about 600MW *of electricity* – or some 1 per cent of generating capacity in England and Wales.

However, today's announcement will say that fewer than 100 projects, with a capacity of less than 200MW, will receive contributions from the levy. The greatest number of schemes to qualify for levy funds involve burning waste to generate electricity, while wind energy projects have come second.

The Government will today invoke its powers under the 1989 Electricity Act, to instruct the regional electricity companies to consume electricity from those schemes subsidised by the levy. The announcement seems certain to anger environmental groups, particularly as it comes shortly before the publication of the Government's policy document on the environment which will emphasise the need to encourage alternatives to fossil fuels.

Mr Simon Roberts, energy campaigner for Friends of the Earth, said yesterday: "The Government seems set on strangling renewable energy at birth."

Supporters of renewable energy complain that one of the main difficulties with the levy is that it will only be in force for eight years. They say that this will result in the levy being biased in favour of nuclear power, since nuclear power stations are already built and therefore have to cover only their running costs.

By contrast, most renewable energy projects have still to be built.

Dr Jim Halliday, chairman of the British Wind Energy Association, said: "We are being compared unfairly with nuclear and also with conventional (coal) plants which are being sold off so cheaply."

The Government is likely to defend today's decision by saying that it represents only the first tranche of subsidy under the levy.

● J. Henry Schroder Wagg was yesterday appointed as lead underwriter for the sale of the 12 regional electricity companies by the Government. Schroders and eight other institutions competed to be appointed as lead underwriter, described by Mr John Wakeham, Energy Secretary, as the last appointment for the flotation of the regional companies.

Relocation ripple reaches north

Scotland's biggest city is attracting companies, says James Buxton

SOME 1,200 senior businesspeople in London and the south-east should have found a computer diskette in their mail yesterday. Those who knew how to slot it into a personal computer may even have been scrolling through a computerised briefing on the wisdom of relocating to Glasgow.

It is the latest ploy in the battle fought by British cities aimed at persuading companies to move out of the south-east and sustaining the gathering momentum for relocation from the capital.

Just a few years ago, the idea of a company moving part of its operations to Glasgow – unless it had to – was almost laughable, even though it has, since the mid 1980s, been part of the city's strategy for recovery from industrial decline.

Now, a series of events including the 1988 Glasgow garden festival and this year's European City of Culture celebrations, have spread the word that Glasgow is not the place of grime and crime it was once thought to be. Quality of life – both in the city and in the surrounding countryside – are now valid selling points.

For Glasgow to fulfil its ambition of attracting companies from the south, its office stock had to be upgraded in the central business district. That process is now reaching a climax as a series of large new and refurbished office buildings becomes available.

More ambitiously, a project to extend the business core down to the river Clyde by redeveloping the Broomielaw area, eventually creating 1m sq ft of office space, is going ahead.

"First we had to make the Glasgow product better, by creating the high-quality office space," says Mr David Macdonald of Glasgow Action, a private/public-sector joint venture that promotes the city's development. "Now we are concentrating on selling the space."

He is aided in that the wave of relocations is moving north from closer destinations such as Bristol and Peterborough. Such cities as Manchester, Leeds and Newcastle are now being considered.

Last week, Glasgow scored a coup when TSB Mortgages, part of the TSB Group, announced that it was to relocate to Glasgow, moving more than 300 jobs over the next 18 months and taking 70,000 sq ft of Broomielaw. Earlier this year, TSB Homeloans moved separately to Glasgow, providing 200 jobs.

Over the past two years, more than 15 organisations have come to Glasgow or agreed to do so, promising a total of about 7,000 jobs. Many of the initial relocations were by companies already connected with the city. For example, BP Exploration has added 1,300 jobs to the 700 it inherited in 1988, when it took over the Glasgow-based Britoil.

Others were Government-driven relocations, such as offshoots of the Department of Social Security, and the Student Loans group.

TSB Mortgages, though, is one of the first companies to select Glasgow after a free choice of about a dozen possible locations in the UK. Similarly, British Airways earlier this year chose Glasgow for a reservations centre that should generate 500 jobs.

Yesterday, using a video-conferencing link with London, Mr Hywel Luke, managing director of TSB Mortgages, said the main reason he selected Glasgow was a demographic projection suggesting a healthy supply of well educated labour.

That is backed by the knowledge that staff turnover rates in Glasgow are only 5-6 per cent a year, compared with an average of 23 per cent in the south-east and peaks of 35 per cent in London.

Mr Luke admitted that the prospect of moving to Glasgow had produced a "mixed response" among staff, in spite of specially arranged visits.

"A number of people have jumped at it," he said. "But others, especially female staff with husbands, won't be able to move." Since Glasgow still has 11 per cent unemployment and premium jobs are oversubscribed many times, the city will not mind much.

Senior executives of TSB Mortgages will move to Scotland to run the subsidiary from there, but so far no company has chosen to move its main headquarters to Glasgow. "That will come," says Mr David Brown, who runs the Locate in Scotland office with the professional optimism of a relocation salesman.

BRITAIN IN BRIEF

Storehouse to sell subsidiaries

Storehouse, the retailing group built up by Sir Terence Conran which has hit upon hard times, is selling its Heal's and Jacadi subsidiaries as part of its restructuring programme.

Mr Michael Julien, Storehouse chief executive, said the decision to sell the two businesses reflected the group's policy of concentrating its financial and managerial resources on its major businesses. These are now defined as British Home Stores, Mothercare, Habitat, and Richards.

Storehouse will sell Jacadi, a French childrenswear business, back to its founder, Mr Patrick Hamelle, and a group of investors. Storehouse only acquired the company last year for £13m and, after the payment of inter-company debts, will sell it for about £11m.

Storehouse originally bought the business with the aim of building a portfolio of international retail brands which could "travel" across continental European frontiers.

In the year to March 31, Jacadi made operating profits of £1.5m on sales of £31.6m and had net assets of £2.5m.

Heal's, which has two stores in London and Guildford, is being sold to a management buy-out team led by Mr Colin Pilgrim, Heal's chief executive, backed by County NatWest Ventures.

Lloyds Bank to transfer staff

Lloyds Bank is to transfer many of its clerical and support work from one of its largest central London branches to Swansea, Wales. Some 175 jobs will be created.

Lloyds says staff shortages and high labour turnover in London have led it to look for alternative employment centres. Swansea will handle much of the administration currently undertaken by a branch in central London and the bank is expected to transfer work from other large branches to other parts of Britain where is easier to obtain staff.

"The move will allow us to make much more cost-effective use of our space in London," the bank said.

The transfer will be the second into Swansea undertaken *by Lloyds. Just over a year ago* it moved the operation involving the handling of in-house mortgages for staff to the city.

Shops defy Sunday law

Almost 300 shops in London's West End are open and trading on Sundays in contravention of the law, according to a study.

The council is supporting an application made to Westminster City Council by Hamleys, a toy shop located on Regent Street, to have the area designated as a holiday resort area, allowing stores to trade on Sundays.

The survey conducted over three Sundays in August, found 290 shops open.

Council plea rejected

Mr Michael Portillo, pictured above, the environment minister, rejected a plea from local authority leaders in England and Wales for extra money to keep poll tax levels down next year.

Mr Portillo said that local authorities needed to get on top of their budgets, and control their spending. The councils had warned that the average poll tax in England and Wales could rise above £400 because of a higher than expected rate of inflation.

Sir Jack Layden, chairman of the Association of Metropolitan Authorities said that the Government's assertion that poll tax bills should only be £379 next year made no allowance for inflation or for new costs such as implementing the food safety bill, the environment protection bill and provisions of the education reform act.

N Ireland coal sales fall

Domestic coal sales in Northern Ireland fell last year primarily as a result of the implementation of clean air legislation.

The province is British Coal's best domestic market with almost 70 per cent of homes heated by solid fuel. Statistics in the annual report of the Coal Advisory Service showed that consumption decreased in the year to March 31 this year by 25,000 tonnes to 1.051m tonnes, 3.5 per cent below the previous year.

Competition in gas urged

One of the main regulatory constraints on British Gas will be dropped if it takes further action to increase competition in the industrial gas market, the industry's regulator said.

Mr James McKinnon, director general of the Office of Gas Supply (Ofgas), set out a timetable for removing the requirement on British Gas to publish fixed prices for large industrial customers – one of the constraints which the company finds most irksome.

But Mr McKinnon stressed that he would remove these constraints only if British Gas took specific actions to help its competitors in the industrial gas market.

Watchdog criticises BT

Serious doubt was cast over British Telecom's attempt to increase telephone rental charges when the Office of Telecommunications, the industry watchdog, criticised BT's method of calculating costs.

Sir Bryan Carsberg, Oftel's director general, described the arguments used by BT to justify its claim as "not very good at all."

Over the past six months BT has been urging Oftel to let it raise its quarterly rental charges sharply, because it claims it is subsidising local services by more than £1bn a year. Earlier this month, the company put up rental charges by 12 per cent but would have put them up even higher if it had not been stopped by Oftel.

BT argues that it is having to charge extra for long-distance and international calls – something which puts it at a disadvantage to its competitor, Mercury Communications.

Sir Bryan Carsberg: critical

Liberals support closer Europe

Mr Paddy Ashdown, the Liberal Democrat leader, put a commitment to the full economic and political integration of Europe in the forefront of the party's efforts to establish a distinctive identity at the next general election.

Mr Ashdown accused both the Conservatives and Labour of promising continued British isolation in the European Community.

Mrs Margaret Thatcher aimed to "delay and obstruct" the efforts of Britain's partners with spurious arguments about the need to preserve the sovereignty of Parliament, he said. Mr Neil Kinnock claimed that his party was now pro-European but it was against European monetary and political integration.

Legal services ombudsman

Mr Michael Barnes will become legal services ombudsman from January 2. The ombudsman will be created under the Courts and Legal Services Bill, currently going through Parliament, and will oversee the handling of complaints against members of the legal profession.

LONDON POLICE CONFERENCE

FBI chief calls for global links to combat crime

A CALL for law enforcement agencies across the world to work more closely to meet the crime challenges of the 21st century was made yesterday by Mr Floyd Clarke, the deputy director of the US Federal Bureau of Investigation.

Opening the International Police Exhibition and Conference in London, he said: "Tensions between the superpowers have ebbed, resulting in less restrictive travel between countries, not only for business people and tourists but also for spies and other criminals.

"We must share investigative leads with each other, we must train with each other, we must work on criminal cases with each other and co-operate better than ever before if we are to meet the crime challenges of the 21st century."

The four-day conference will include sessions on the future of policing in the single European market and the lessons of disasters such as the King's Cross fire and Clapham rail crash.

At today's session, Sir Stanley Bailey, the Chief Constable of Northumbria, will propose that police forces should be allowed to set up and run private security companies providing services they are unable to meet within their budgets.

A top Soviet policeman today spoke of his hopes of increasing links with British forces.

Lieutenant General Ivan Shilov, first deputy minister of internal affairs and former head of the Moscow Militia, said he planned to talk to Home Secretary David Waddington about international co-operation in dealing with drug-trafficking and organised crime, as well as issues such as forensic science techniques and police equipment.

Mr Shilov was also closely examining equipment on show at the International Police Exhibition and Conference at the Barbican in London. He was impressed with the exhibits, particularly fingerprint identification and photo-image systems. Speaking through an interpreter, he said: "We have had contact with British police on a case by case basis and this is a new development of the last two years."

Court told of bow door procedures

THE SENIOR master of the Herald of Free Enterprise failed to provide clear instructions to ensure that there was no risk of the ferry leaving harbour with its bow door open, it was alleged at London's Central Criminal court yesterday.

Mr David Jeffreys, QC, prosecuting, said it should not have been beyond the competence of Mr John Kirby, the senior master, to devise "a set of orders to ensure there was no risk of the ship leaving her berth with the bow doors open. There was nothing to stop him if he saw fit to order positive reporting concerning the closure of the bow doors."

Mr Kirby, P&O European Ferries (Dover) Ltd – formerly Townsend Car Ferries – and six other former employees have denied a specimen charge of manslaughter of one of the 192 people who died when the Herald capsized on March 6 1987, after sailing from Zeebrugge with the bow doors open.

Mr Jeffreys said another of the accused, Mr Leslie Sabel, the chief officer who was loading officer on the day, had also to be on the bridge and could not be in two places at once.

Mr Kirby "was perfectly aware of the manning or the lack of continuity problem which existed," said Mr Jeffreys.

The man who wants Brussels to make his day

John Gapper on the UK's efforts at foiling aspects of the EC code on workers' rights

A poster of Clint Eastwood, former mayor of Carmel-on-Sea in California and cinematic killer of young punks who made his day, hangs in the Whitehall office of Mr Eric Forth, Her Majesty's Under Secretary of State for Employment.

The poster is a sign both of Mr Forth's briskness and his enthusiasm for the American way of life. The enthusiasm has been on display in the cross-border town of Brussels this summer as Mr Forth has started an energetic fight to defeat European Commission ambitions.

Mr Forth is as capable as Mr Eastwood's screen characters of plain speaking. He is using this talent as the minister in charge of British opposition to EC proposals to regulate the pay and conditions of part-time and temporary workers, and set safeguards for women workers who have children.

The draft directives on these subjects are the first of a stream flowing from the Social Charter of workers' rights which has been opposed vociferously by Britain. But other EC states have objected to the directives, and Britain is trying to multiply opposition.

Mr Forth has brought to the job a firm dislike of the whole notion of regulating labour markets. He speaks of the virtues of unfettered capitalism

Eric Forth

with enthusiasm, and dismisses the idea that Europe would benefit from having a European labour market with common working conditions.

His ideal is the US, which he says has managed to raise employment levels in depressed areas by allowing the sort of variations in employment costs which the Commission wants to control. It has also encouraged the free movement of labour towards areas of settled capital.

Mr Forth says the Commission should be trying to create a "customs union" with free movement of goods and services rather than setting limits on variations in labour costs. "We should be educated by the US. For 200 years, it has maintained a continental federal trading system," he says.

He points to the lower overall unemployment rate in the US despite variations in labour conditions and regulations among states. "Freedom has been allowed to individuals and regions to develop their own way and see what is best for them. That flexibility has worked," says Mr Forth.

In particular, he points to the migration of companies south from the northern states and the "rustbelt" encouraged by a lack of labour regulation in the South in the 1960s and 70s. He emphasises how workers move more easily between jobs, and into different areas in search of work.

"There is a different American tradition, a willingness to move physically and geographically, a willingness to move between employers and jobs. Surely we should be aiming for something like that in Europe," he says. In contrast, he says the Commission's directives would limit movement.

Mr Forth has already managed to gain backing from British employers to the Commission's four directives on part-time and temporary work, and working time. Among other things, it would mean all people working more than eight hours a week would be entitled to similar conditions.

These directives are likely to be placed before the Council of Ministers in November. Britain based much of its opposition on the argument that by deregulating its labour market during the 1980s, it managed a more impressive rate of job growth than other EC countries.

In the face of persistent structural unemployment in the EC, the British point to a record of job creation – 3.5m jobs were created between 1983 and 1989 including 1.3m part-time jobs. It argues that part-time jobs could be put at risk by enforced harmonisation of conditions.

"If you go very far down that road, you will end up having a devastating effect and wiping out large numbers of jobs. You will be raising the threshold at which people can get back into work," says Mr Forth. He argues that this will discriminate particularly against women workers.

One of the main motives for labour market regulation in other European Community states is to ensure that employers carry out enough training. The country most often held up as a salutary example is West Germany, where young people have a legal right to training.

Mr Forth does not dismiss this example out of hand, but he emphasises other parts of the West German model as well. "It is also instructive that unions accept lower rates of pay for apprentices there. It is a German model and it has to be set in a German context," he says.

He has already made his way to Brussels with a posse of directors of small businesses to make these points to the Commission. But he will need to fight at least as hardas Mr Eastwood for the rest of this year if he is to gain significant concessions from the Commission.

● OIL and gas trade unions yesterday took the first steps towards balloting offshore workers on industrial action on the North Sea, a move they admit could be fraight with legal complications.

Mr Jimmy Airlie, a national executive member of the AEU engineering union, launched in Aberdeen the national campaign to persuade union members working offshore to register for the ballot.

He described the campaign as "very expensive", involving press advertising, reverse-charge calls and free phones inorder to have contract workers offshore registered by Friday September 28. He said that as soon as registration closed the six unions involved would move towards industrial action.

Single market set to spur growth in UK credit insurance

By Richard Lapper

THE growing number of insolvencies in the UK is leading to an increased interest among British businesses in insuring their credit risks.

The economic downturn is having a ripple effect. High interest rates and other problems are driving companies into bankruptcy, in turn threatening the solvency of other companies which have supplied goods to those in difficulties.

As the risk grows that their receivables might disappear into thin air, more and more UK businesses are looking to insure their credit risks.

The credit insurance industry, which has diversified its product range over the past 10 years, is poised to grow as a result.

Trade Indemnity, the dominant player in the UK credit insurance industry, as well as a number of smaller underwriters specialising in this field, say increasing numbers of companies are seeking to buy policies in the wake of the collapse of Lowndes Queensway, the retail group, and Coloroll, the home furnishings group, in the summer. Insured credit losses stemming from the Coloroll collapse amounted to between £9m and £20m.

The number of UK business failures in the second quarter of 1990 increased by 83 per cent compared with the same period last year, according to Trade Indemnity figures.

But in general credit insurers are making light of potential losses, and suggest that the main effect of the difficulties may be to increase the popularity of credit risk insurance.

"New business always lags behind claims, but we have already seen an increase in requests for covers," says Ms Bridget Spreckley, associate director for marketing at Trade Indemnity.

Mr Alistair Malcolm, a prominent credit risk underwriter in the London insurance market and managing director of AMA Underwriting Agencies, says the combination of the Coloroll and Lowndes Queensway failures is likely to provide the credit insurance industry with its biggest boost since Rolls-Royce went into receivership in 1971. About 400 of Rolls-Royce's suppliers became insolvent when the motor and aircraft group failed to meet commitments.

He says the event is regarded as a benchmark in the development of the credit insurance industry.

"There is no doubt that we will suffer losses this year. But the market will expand," says Mr Malcolm.

Trade Indemnity, which writes about 70 per cent of the estimated £110m to £120m in domestic trade credit insurance premiums sold annually, sells a standard insurance "whole turnover cover" which protects risks with named creditors up to specific limits.

It drafts policies only after detailed research into the credit risks of the policy-holders' trading partners.

Policy-holders must stipulate a credit limit for each trading partner they want included on the policy. "We are able to cross-reference databases with market rumours to assess the creditworthiness of customers," says Ms Spreckley.

So The product is necessarily expensive, partly because it must reflect the cost of the credit risks analysis. work.

BUSINESS FAILURES

1988	Q1	616
	Q2	637
	Q3	601
	Q4	606
1989	Q1	628
	Q2	592
	Q3	622
	Q4	748
1990	Q1	1,009
	Q2	1,080

Source: Trade Indemnity

Customers pay between 0.1 per cent and 0.6 per cent of turnover, depending on the sector they operate in and how well they are judged to control credit risks, says Ms Spreckley. Typically a Trade Indemnity policy-holder would have an annual turnover of between £5m and £10m.

Since the early 1980s, cheaper and more flexible alternative products have become available. These are based on an excess-of-loss insurance principle, common in international reinsurance markets, whereby the insurer covers all losses above a certain level.

Companies marketing these policies, include PanFinancial, a conglomerate formed by Japanese, Swedish and Finnish insurers in the early 1980s; the US company American Insurance Group (AIG); and the British composite Sun Alliance.

With excess-of-loss policies, insurers control risks by ensuring that policy-holders adopt competent and reliable credit management policies.

"We invite companies to declare their credit control procedures. This declaration is then warranted into the policy. The excess-of-loss insurance only really works where in-house credit control is demonstrably good," says Mr Malcolm.

Such policies are ideally suited to bigger companies that have traditionally provided against credit risks by establishing their own bad-debt reserves, adds Mr Malcolm.

A number of larger companies including BTR, the industrial materials group, and Jaguar, the luxury car maker, began to buy credit insurance when excess-of-loss coverage became available.

The expansion of the market for internal UK credit risk comes at a time when the European market is posed to grow rapidly.

The European domestic trade credit market is already worth over £500m a year, with West Germany and France accounting for about half of this total.

The industry is also well established in Scandinavia, the Netherlands and Belgium.

The biggest spur to growth will come from the completion of the European single market after 1992, which is likely to entail the end of the distinction between domestic and international trade credit insurance in Europe.

Until now, trade between European countries has been insured by separate export credit insurers that have enjoyed a virtual monopoly. This is set to end in line with European Commission directives.

Some European credit insurers are already preparing to expand. The Dutch insurer Aegon, the French insurer Assurances Generales de France (AGF), and the Belgian company Namur have all established UK credit insurance operations.

MANAGEMENT: The Growing Business

EC proposals

A social disharmony

UK lobbyists and government are showing rare agreement in opposing directives on workers' rights. Charles Batchelor reports

Small business lobby groups spend much of their time at odds with government over measures they want adopted, modified or abandoned. But in the UK both have made common cause over what they see as the threat of far-reaching social legislation being prepared by the European Commission.

Opposition to the stream of draft directives which is beginning to emerge from Brussels has also succeeded in uniting the normally disparate small business organisations.

At present, opposition to Brussels' plans for a charter of social rights for workers appears to be driven by small firms groups in the UK – but they are confident that it will spread to their counterparts in continental Europe when the full impact of the social proposals is realised.

Even the most moderate of small business groups have been driven to an almost apocalyptic view of the Commission's proposals. "This is socialist dogma which we thought went out with the ark," comments Sean Mayo, an executive committee member of the Union of Independent Companies.

The Commission first announced its plans for a Social Charter in early 1989 and in recent months has been converting the charter into concrete legislation in the shape of its social action plan. The Commission is attempting to improve and harmonise working conditions throughout Europe and provide a social dimension to the single European market which might otherwise be seen as only benefiting businesses.

The British government's response has been that if businesses benefit from the single European market then employees will automatically benefit too and more jobs will be created. It refuses to accept that differing social legislation and employment conditions distort competition.

The Social Charter comprises about 50 proposals which will be introduced by December 1992. The small business organisations say they can accept many of the proposals in areas such as health and safety but others they reject.

Five draft directives have been published over the past four months. The most recent – which proposes 14 weeks' paid maternity leave – was announced last week. Three more are due shortly: they are expected to propose formal employee participation in company decision-making; improving the terms and conditions of workers employed on foreign contracts by sub-contractors; and the introduction of a standard contract of employment.

Four of the directives which have already been published cover the subjects of part-time and temporary work and working hours. They seek to provide equal treatment for all workers, whether they are part-time, temporary or full-time. One result would be that all employees working more than eight hours a week would become part of the national insurance system.

Temporary employees would have to be admitted to private pension schemes on the same basis as full-time employees. This would increase the administrative burden to an extent that schemes might become uneconomic to operate, the government claims.

The working hours directive requires all employees to have daily and weekly rest periods of a specified minimum length and there would be restrictions on the amount of overtime worked by night workers.

Small business lobby groups have a number of objections to these proposals. Eight of the small business organisations outlined their objections to the social action plan in a meeting with Vasso Papandreou, Employment and Social Affairs Commissioner and Antonio Cardosa e Cunha, Enterprise Commissioner, in Brussels earlier this month.

According to one participant in the meeting, Papandreou took the view that the regulations would not limit the flexibility of small businesses; that labour costs would go up but that labour was only one element in a business's costs; and that small businesses were failing all the time anyway. The Commissioner also claimed that British small firms were the only ones to object though the UK delegation attributed this to the Commission's failure to consult properly.

"Pretty discouraging" was Sean Mayo's description of the meeting while Stan Mendham, chief executive of the Forum of Private Business, characterised it as "strained, with no sense of either side understanding the other."

The meeting has done nothing to reduce the small business organisations' fears. They believe:

- Too much regulation will reduce the flexibility which is one of the main advantages small businesses enjoy over large. "The Commission wants a levelling-up so that we will be competing with big companies under the same conditions," says Mayo.

  This loss of flexibility will put small firms at a disadvantage in their competition for a dwindling supply of workers in the 1990s, says Mendham.
- The proposals will cost money, with small firms, often more labour-intensive than large, being hardest hit. Full details of many of the proposals have not been published but Sean Mayo calculates that plans to appoint worker representatives could cost his company Concorse Electronics nearly £15,000 a year.

  The cost and complexity of the proposed social legislation would put businesses in the Community at a disadvantage to those outside. The UK textile industry, which has high environmental and employment costs already, faces difficulties competing with companies in Turkey, where these costs are much lower, notes Richard Brown, policy director of the Association of British Chambers of Commerce.
- Small businesses in countries which enforce Community regulations will be in a weaker position than those where the rules are not so strictly adhered to, the lobbyists fear. But even in countries with a good record of implementing Commission directives it would be impossible to police whether every small company was abiding by the rules, comments Mendham. The temptation for employers and employees to collude on avoidance of the regulations would be very great.
- The speed with which the proposals are being pushed through allows the small business groups little opportunity to understand the new regulations and consult their members. "We are not being given enough time," says Sean Mayo.
- The directives are not being submitted to the *fiche d'impacte*, which assesses their implication for small business. Small firms representatives who attended the meeting with Papandreou and Cardosa e Cunha say they were shocked that the Directorate-General for Enterprise was not taking a stronger line. Cardosa e Cunha suggested estimates had been made of the impact of the proposals, they said, but none had been published in *fiche* form.
- The UK government is concerned that some of the directives are being presented as health and safety measures which can be approved by a majority vote of member states. If forward as employment measures, which Westminster believes they are, they would require unanimity and could be blocked.

Despite their discouraging meeting in Brussels the British small business groups are determined to broaden the attack by involving other small firms organisations in their campaign. A recent meeting of independent business organisations in Germany showed they were strongly opposed to the terms of the Charter, says Mayo.

Small business organisations plan a joint letter to Papandreou and Cardosa e Cunha reiterating their views, while they will also be writing to the European Economic and Social Committee, which advises the Commission, and to individual Members of the European Parliament.

Small business organisations recognise that their prospects of blocking the social action plan are small though they hope to modify its more objectionable features. According to Michael Ivens, director of Aims of Industry, a campaigning group for "free enterprise": "There is a good row brewing up."

A sharper cutting edge

Charles Batchelor *on consultancy for Sheffield businesses*

Small businesses can achieve marked improvements in their performance if they are given the right sort of help, according to a project involving 16 small firms in Sheffield, West Yorkshire. The project, which teamed up a professional consultant with each business owner for 12 months, suggests that many small businesses have untapped potential.

For most of the business-owners the notion of sharing their ideas with an outsider and of conducting a critical analysis of their business was new, a report* on the project states. The businesses ranged from silver cutlery processing through specialist cheese retailing to T-shirt printing. The owners were mainly in their mid- to late-20s and most of the businesses had been established for between one and three years.

Even those firms showing good growth owed their record to strong external forces rather than to their own planning, the report said. Most had lurched from crisis to crisis. One aim of the programme was to encourage each firm to develop its own three-year plan, though most managers could not find the time to do this.

Thirteen of the companies involved increased their turnover, in some cases by as much as half. Ten firms significantly improved profitability by reducing costs and increasing margins while eight firms increased employee numbers. There is sufficient evidence to attribute these increases to the consultants' advice, the report says.

In many cases the consultancy help led to the managers showing a greater ability to manage change and draw in outside expertise when they realised their own limitations. Others reported they were better at managing themselves, their time and their staff.

Many of the firms had adopted new accounting and internal control procedures and some had changed their accountant. A notable problem was the poor quality of the accounting service sold to the firms. Many accountants provided little more than a book-keeping facility, and in some cases a very slow one, the report said.

In all cases the consultants realised they needed to meet the firms more frequently than they had expected. The Sheffield programme provides valuable insights to organisations engaged in helping small businesses, the reports author's state.

A Growth Programme for Young Entrepreneurs. £7.95. From Sheffield Enterprise Agency, 5 Palmerston Road, Sheffield S10 2TE. Tel. 0742 755721.

Why property is a better bet

The future looks very gloomy for trading companies trying to raise Business Expansion Scheme funds because investments in residential property companies provide a far better bet for investors, according to the latest BES guide* from accountants Stoy Hayward.

More than £1.2bn has been raised under the BES scheme over the past eight years but the amount going to trading (non-property) companies has declined sharply since 1988/89. This was due to the imposition of a £500,000 limit (since raised to £750,000) on the amount a trading company could raise in any year and the introduction of relief for investment in companies letting residential property on assured tenancies.

For investors looking purely for a tax shelter there is no choice, the guide says. Residential property offers a low-risk, asset-backed investment and costs of promoting the fund-raising are spread over £5m rather than £750,000. There is a growing awareness among people of the BES and there are many more cases of small groups of individuals setting up their own BES-financed companies but the BES conditions are a potential minefield and the tax reliefs can easily be lost if one of the conditions is breached, the guide warns.

**Business Expansion Scheme – Your Questions Answered. 56 pages. Free from Marketing Dept, Stoy Hayward, 8 Baker Street, London W1M 1DA.*

CB

In brief. . .

■ The failure of Lowndes Queensway and the refinancings of MFI and Magnet have taken the gloss off the buy-out market but large numbers of small to medium-sized buy-outs are still being financed. A two-day conference on buy-outs in the UK and continental Europe will be held in London on November 28 and 29.

Contact Business Research International, IBC House, Canada Road, Byfleet, Surrey, KT14 7JL. Tel 071-637 4383. Conference fee £525 + VAT.

■ Issues concerning the family business have received little attention despite increased interest in the small firms area generally and the fact that 76 per cent of UK businesses are family-owned or controlled.

A series of one-day seminars on questions such as succession planning, maintaining independence and realising the potential of the family business will be held in Glasgow (October 29), Nottingham (October 31) and London (November 1).

Contact Stoy Hayward Conference Services, 39-41 North Road, London N7 9DP. Tel 071-607 5322. Seminar fee £250 + VAT.

■ Four million people are expected to be working from home by 1995 – thereby avoiding paying rent for business premises, paying travelling expenses and undergoing often uncomfortable commuting. They may also, however, feel isolated, cut off from interaction with colleagues and find business issues spilling over into family life.

A basic guide to some of the issues raised by working from home and to some of the equipment now available for keeping in touch with the outside world is available from British Telecom.

A Guide to Working from Home. 16 pages. Free. Tel Freefone 0800 800 845.

BUSINESS OPPORTUNITIES

READERS ARE RECOMMENDED TO SEEK APPROPRIATE PROFESSIONAL ADVICE BEFORE ENTERING INTO COMMITMENTS

BUSINESSES FOR SALE

BUSINESSES FOR SALE

TECHNOLOGY

Machines get the message

THE FIRST numerically controlled computer system using a RISC (reduced instruction set computer) microprocessor was launched last week at the International Manufacturing Technology Show in Chicago by GE Fanuc, the joint venture between General Electric of the US and Fanuc of Japan.

RISC microprocessor technology, already employed in the engineering workstations available from companies such as Sun, Digital Equipment, IBM and Hewlett-Packard, offers the advantage of speedy data processing.

According to Larry Sweet, manager of GE Fanuc's computer numerical control (CNC) business, the new Series 16 CNC which incorporates RISC processes instructions 100 times faster than a classic CNC. As a result, he claims, hitherto unknown precision can be achieved when machining complex workpieces at high speed.

When a cutting tool is moving under computer control, there is an inevitable lag between the commanded and the actual tool path. The greater the lag the less the accuracy of machining. Current industry trends are to increase machining speeds to achieve better productivity, but accuracy still suffers because more errors are made.

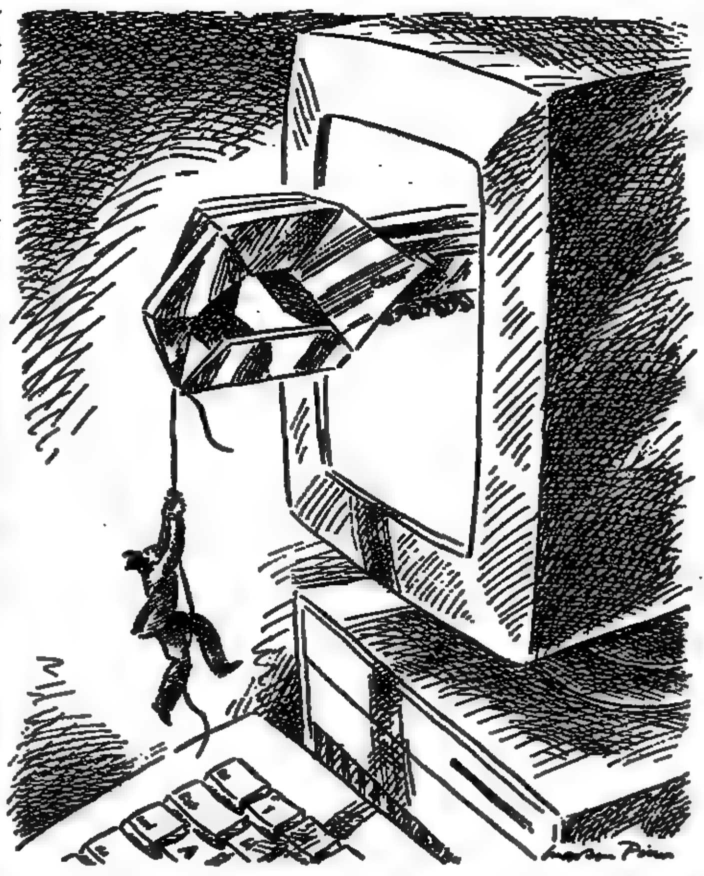
GE Fanuc claims that its Japanese-developed RISC-based Series 16 CNC is so fast that it has the time to look ahead into the programme and calculate the expected following-error from system parameters. It then performs the necessary modifications to the programme to reduce following-error to zero. So the ideal state of identical commanded and actual tool paths is achieved.

According to Sweet, the applications likely to be the first to take advantage of this accuracy will include the machining of dies, moulds and gears, where tolerance and shape are critical. Prototypes of the new Series 16 controller are being made available to machine tool builders, and worldwide shipments are due to start early next year.

Anna Kochan

Gren Manuel asks why the assembly of safety critical equipment is left to non-specialists

Would you trust this computer?



Anaesthetists must study for several years and take extensive exams before being allowed into an operating theatre. Yet during an operation the patient's survival may be largely dependent on a computer-controlled life support machine put together by computer personnel with no professional qualifications.

Computers are becoming increasingly responsible for the safe operation of a wide range of equipment and processes. There can be few other industries where potentially lethal products can be sold on the open market without any form of government licensing or monitoring.

Government figures suggest that UK industry is now spending £500m a year building safety critical computer systems that could cause death or great harm if they malfunctioned. The figure rises even higher if systems that would cause financial loss or serious environmental damage are included.

Many people are aware that the Airbus A320 aircraft relies extensively on software for its safe operation, but there are many less well-known examples. If the Sizewell B nuclear power station develops a serious fault, for instance, it will be software that has the primary role of recognising the problem and shutting the reactor down – the first time in the UK that a computer has been given this task.

Yet the industry remains largely self regulating. Although both the examples mentioned above require approval from an industry-specific regulatory body, in many cases there is no need to notify the Health and Safety Executive when installing a computer system which could cause someone to die if it malfunctioned.

The Health and Safety Executive has issued voluntary guidelines, but a major report on safety critical systems produced last October by the British Computer Society and Institute of Electrical Engineers found them in use in less than a third of UK industrial sectors.

Faulty systems have undoubtedly already killed, but the reluctance of many designers to hand final control to a computer has kept the risks in line with other types of machine failure. But the pressure to turn over ultimate control of major systems to computers is increasingly powerful, says Martyn Thomas, chairman of the British Computer Society's safety critical taskforce and chairman of Bath-based software house Praxis.

There is no accepted method of calculating the risk of failure in software that must attain highest levels of reliability. The topic is a "black hole", according to Bev Littlewood, a professor at London's City University and director of the University's Centre for Software Reliability.

The subject is causing increasing disquiet among computing professionals and has prompted two government initiatives in the last six months. Financial institutions which have staked their business on computers are taking an increasing interest.

There is some agreement that judicious use of mathematical techniques to "prove" that computer systems are free from some types of errors are beneficial. As is the technique of doubling or tripling of key components, with the different computers taking a majority vote on the correct action. Yet there is no agreement on the fundamental issue of deriving a figure for the reliability of the high-integrity systems now being produced.

How does Robert Worden, chief executive of Logica Cambridge, feel about putting numerical failure rates on his firm's software? "We realise that it's essential to our business," he says.

Littlewood explains that assessing the reliability of software is fundamentally different from assessing the reliability of any other engineering component. Predicting the behaviour of software is like trying to predict the quality of the very first bolt produced by a production line, necessitating an intensive study of every part of the production process. As the complexity of the software rises, this becomes a colossal task.

The most common fault is that the designers have forgotten to cater for some particular combination of events – and only extensive real-life operation can show these up, says Littlewood. He and his colleague Peter Mellor, a lecturer at City University, have studied the testing process and believe that to be sure software will work continuously for a year requires 10 years of real-life testing.

Unfortunately, many safety critical applications demand exceptional levels of reliability. The computer system for the Airbus A320 passenger jet, for instance, must work faultlessly and continuously for decades in hundreds of jets. They believe that assuring its reliability would therefore take hundreds of thousands of years of testing.

It is not only the software that is the problem but also the complexity. "Science can't help you, and there's no prospect of science helping you," says Thomas. The designers of these systems follow extensive, rigorous guidelines issued by national and international regulatory bodies which rely on historical data of software reliability.

Littlewood says these arguments do not come up to the standards demanded by other parts of the engineering profession. There are instances, says Thomas, where software professionals have misled their managers or the public about the reliability of their work, claiming reliability figures for which they have no evidence.

In some cases, these professionals have countered criticism within the industry by saying that their figures are intended only for non-technical audiences. In the BCS/IEE report, members of both institutions were reminded that they should be able to justify any reliability figures they publish.

To make a computer perform faultlessly requires the application of "ordinary engineering discipline" claims Phil Bennett, managing director of the Centre for Software Engineering, a specialist consultancy based in Flixborough, near Scunthorpe. No one, he warns, should rely totally on the software alone.

He contrasts emergency shutdown systems, which may be needed only once or twice during the lifetime of a machine, with the much riskier control software which may be responsible for safety every second during a 20-year life.

In response to industry's fears about safety, a committee of government departments in May launched Safe IT, a broad-based strategy for the safe use of information technology. In addition, the Department of Trade and Industry and the Science and Engineering Research Council (SERC) have allocated £13m for a four-year research programme.

A few months ago SERC was also considering the creation of an Interdisciplinary Research Centre on safety-critical systems, but this idea was scrapped, much to the dismay of many in the industry.

Thomas and Littlewood agree that regulation may be the only answer. Last October's BCS/IEE report also recommended that some form of monitoring system be created. Thomas says that sometimes the rationale for switching to computer control is mere "fancy marketing" with no thought of the risks.

"What we need is a regulatory framework that stops this kind of thing happening," he says, although he agrees that any system must be viewed as adding to other systems of quality assurance, rather than replacing them, and must not lull the industry into a false sense of security.

Conferences on safety-critical computing often finish with a prophet of doom hammering the lectern while saying that unless the industry gets a grip on its problems it will cause a Bhopal-sized catastrophe, killing hundreds of people. As Thomas comments: "The record of professionals policing themselves in advance of disaster is not encouraging."

Xenova creates a chain reaction

XENOVA, the small UK biotechnology research company, has just announced that it has patented several chemicals that slow the breakdown of collagen, a structural polymer present in cartilage. These inhibitors, found in fungi, may lead to a new chemotherapy for arthritis, treating the disease and not just countering inflammation as most arthritis drugs do at present.

Fungi are Xenova's speciality, comprising two-thirds of its inventory of microbes. It harvests them all round the world – from nearby Burnham Beeches to Far East forests – and then analyses them to try to find any compounds of pharmaceutical value.

"We're not really a biotechnology company but we've recognised that biotechnology is a rich source of tools to accelerate drug development," says John Jackson, its chairman. The firm was founded in Slough in 1986 with seed capital from Celltech, the older biotechnology research company close by.

Jackson, now chairman of both companies, is helping to raise fresh funds for Xenova's researchers, a team of 65 specialising in screening natural microbes for chemicals that might yield treatments for such diseases as arthritis and cancer. It is unique among the new biotechnology research companies, he believes.

Xenova is the brainchild of Louis Nisbet, an internationally known microbiologist and the company's chief executive. Xenova is trying to use the new techniques of biology, such as genetic engineering, to design more selective screens through which to sift natural organisms for molecules that might make new medicines. Nisbet likens it to the use of the new gene probes made by genetic engineering to diagnose diseases – but in reverse.

Xenova spent its first two years assembling an armoury of screens, which it now calls Asset (advanced screening technology). Each screen is designed to pick up any molecule that appears to influence a specific disease. So far, Nisbet has developed about 18 different screens and plans to add five or 10 more.

Each micro-organism in Xenova's collection is cultured to provide enough material for assay. Then the culture is screened automatically by a system Nisbet says he has borrowed from the pathological laboratory, refined and accelerated so that it can handle 2,000 samples in half a day. He reckons Xenova is making more than 1m of these tests a year.

It is more than a matter of just searching for substances, for these are living organisms which may produce their most interesting molecules in response to stress – such as a temperature change – applied to the culture. The procedure is also more likely to find molecules small enough to make oral medicines.

Asset has attracted the interest of such pharmaceutical groups as Du Pont, which asked Xenova to screen for potential new molecules for treating cardiovascular disease; and Hoffmann-La Roche, which wanted new immunosuppressives.

Xenova then negotiated a joint venture with the Californian biotechnology research company Genentech to screen for new cardiovascular chemicals using Genentech's own technology. The company was also approached by Monsanto, which asked Nisbet to search for new fungicides; and FMC in Chicago, which wanted new insecticides.

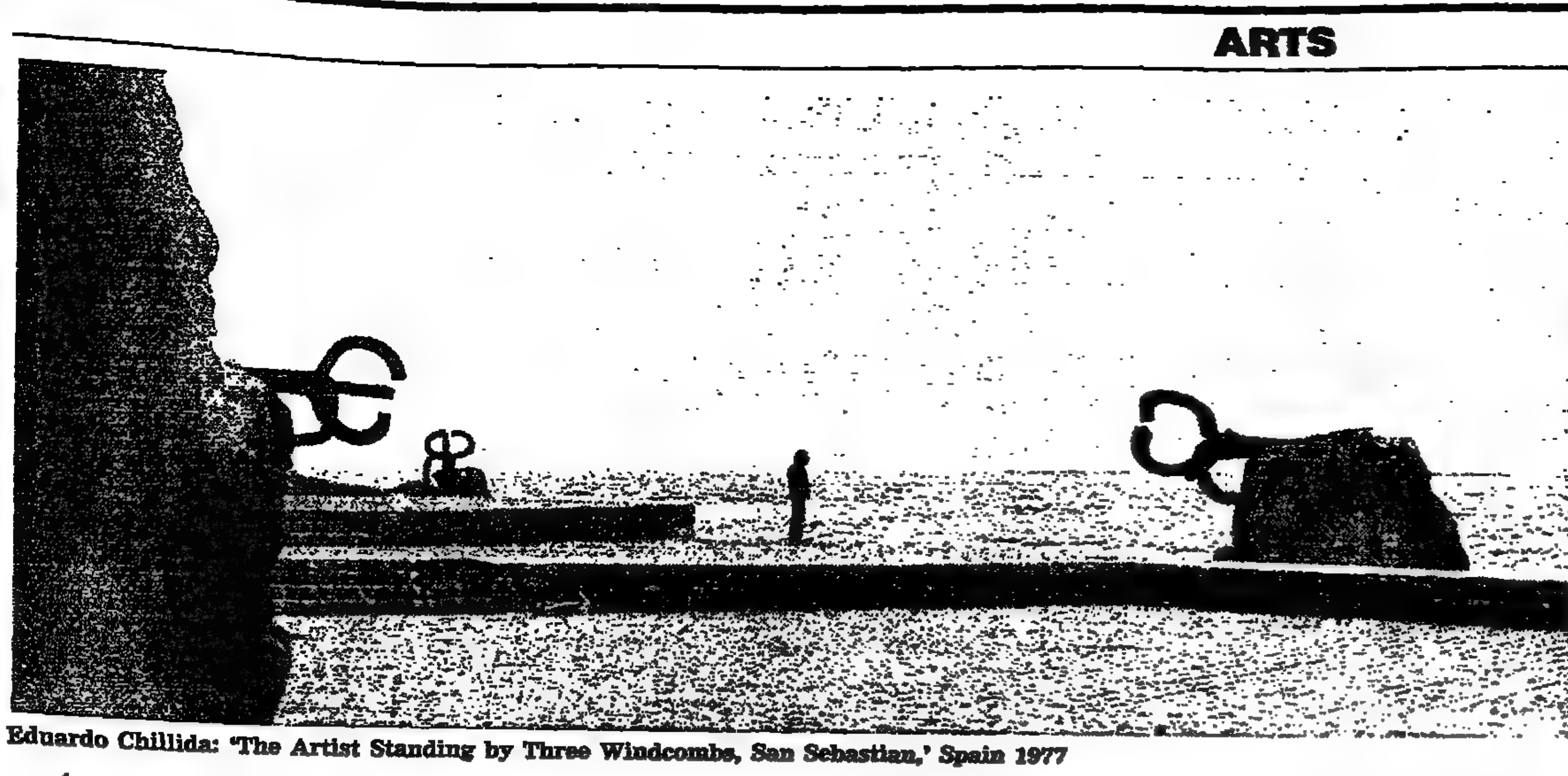
Income from its collaborators is expected to total £1.5m this year. Why, then, does Xenova need to raise more cash? Jackson stresses that they intend to develop their discoveries through established partners, and have no plans to embark on expensive clinical trials of their own, "or enter into areas that need big marketing muscle."

The company wants to take on more investigations at its own risk – into anti-virals and HIV, for example – in the belief that it can enhance the value of its intellectual property and thus strike better deals with its collaborators. Not to do so would be a waste of a very valuable opportunity, Jackson says.

In addition to the £5.2m raised to back Xenova so far, it now seeks a further £8m to fund the company for the next four years. By then he expects it to have doubled in size, to about 120 staff.

David Fishlock

ARTS



Eduardo Chillida: 'The Artist Standing by Three Windcombs, San Sebastian,' Spain 1977

A great manipulator of his material

William Packer reviews the work of Eduardo Chillida at the Hayward Gallery

Eduardo Chillida, the Spanish, to be more precise the Basque sculptor whose work now fills the entrance gallery and upper floors of the Hayward Gallery on the South Bank (until November 4: sponsored by *Banco Bilbao Vizcaya*), is one of the major artists of our time. The point was nicely made early this year at Venice, where the *omaggio* paid him by the Biennale, that was both central to it and yet, at the Ca' Pesaro, stood quite apart, was the single most distinguished exhibition of the entire festival. Yet such bald assertion requires some amplification.

Chillida, born in 1924, is of the first post-War, post Moore generation of sculptors that in Britain is distinguished by such artists as Anthony Caro, Eduardo Paolozzi, Kenneth Armitage and William Turnbull. Like them in his time he too has enjoyed wide international recognition, in Europe and America especially, and the acknowledgment in Venice of his established reputation and public achievement should have come to us as no surprise.

And yet, by some quirk of circumstance, he has been all but ignored or forgotten by British criticism and public taste these several decades past. Two one-man shows, at McRoberts & Tunnard in 1965 and at Anne Berthoud twenty years later, and an occasional appearance in a mixed dealer's show, make the sum of his British exposure in thirty years. The Tate's one small if weighty example of his work, an iron *Modulation of Space* of 1963, remains the only example of his work in any of our public collections.

Are we so narrow in our view of what constitutes true modern sculpture, so persuaded by the international *réclame* of successive waves of younger British sculptors that, whatever modern sculpture is, it must be young and British? Would we have taken more notice had Chillida laid out his blocks of virgin granite in circles on the floor, leant heaps of metal against the wall, or simply gone for long walks in the Pyrenees? Fashions change, in art as in life, and for long enough it has been assumed that the sculptor is but an assembler of the given elements of his material, bolting, welding, piling his work together, like a child with his building bricks or "Meccano" set. How unexpected, how radical, how amusing that young Barry Flanagan should turn suddenly to modelling hares and elephants in clay and casting them into bronze. The exception serves only to confirm the rule.

But the world turns again, and suddenly it seems less odd that an artist should seek to modify directly and personally his intractable material. Caro still welds away, but now the metal is fluid and supple in its modulations; Paolozzi again works directly with clay and plaster. And Chillida? Chillida comes into his own again as the carver and modeller he always was.

As an artist he is entirely his own man, and it is to take nothing away from that position of creative independence to go on to say that of all living sculptors he is the true successor of Henry Moore. The affinity lies less in the immediate character of the work, in its imagery and sculptural presence, though clearly possessed of the same humane monumentality, than in its technical practice and more general spiritual and imaginative qualities.

Moore too was never an assembler but always a manipulator of his material, first as a carver and then, after the War, as a modeller, which practice he had until then rejected as decadent. The question of principle is not here the issue: what brings the two men together is their essential practice as manipulators of the actual stuff of their sculpture, whichever it happens to be at a given time, conditioning it, tempering it, working it with their own hands. And it is in Chillida's work in iron, which Moore never used, most especially in the huge *Combs of the Wind* that are set into the rocks on the coast at San Sebastien, that this quality is declared in its most dramatic form. Such images could only have been worked with the heaviest industrial equipment, yet still the iron bars retain the sense of having been bent and twisted into their active configuration by the lightest and most direct of touches.

The spiritual affinity is something more general and unspecific. Chillida has never been a figurative sculptor as such, unlike Moore who always came back to the human figure as his prime reference and imaginative stimulus, no matter how abstracted any particular work or formal preoccupation of the moment might be. In the 1930s, however, Moore had had to conduct a long debate with himself, expressed through his work, as to where the emphasis should lie. For an artist of the next generation, there was never quite the same dilemma to resolve between abstraction and external reference. When in the early 1950s the young Chillida rejected the image of the human figure in favour of complete abstraction, the move was as confident as it was permanent.

And yet, just as there is with abstract painting a sense that the inevitable pictorial space the eye is invited to enter is a kind of landscape of the imagination, so with abstract sculpture there will always remain points of human contact and association, both physical and imaginative. The space the work occupies is as real as ever, and it is a space we who come to consider it share with it. The carved interior spaces of Chillida's marble and granite blocks offer an architecture and inner space that we are invited to enter. The iron bars writhe and twist like the fingers of the hands Chillida so loves to draw. The metal of the small maquettes, crisply sliced and bent, over-arches and encloses a most potent and imaginatively charged domestic space – the houses in spirit of Bach, or Goethe, or Hokusai, as Chillida indeed fancies to think of them.

The exhibition has been beautifully installed, the mezzanine open and airy again, and how handsome a gallery the ugly duckling Hayward suddenly appears to be.

Varèse and Beethoven

ROYAL FESTIVAL HALL

The "Brave New Worlds" series on South Bank proposed on Sunday a concert of notably brave and intelligent programme-planning in which two epic, and wholly dissimilar, worlds of music were brought face to face. The first was the infinitely depressing landscape of Varèse's *Déserts* (1950-54), which Simon Rattle and the City of Birmingham Symphony Orchestra gave in the version with tape; the second was perhaps the 19th century's most gloriously optimistic ideal-in-music of human society at its noblest – Beethoven's Ninth Symphony.

The contrast between the two works was extraordinary. Not surprisingly, the first proved unpopular with the large audience; probably, it always will, since its intransigently harsh sound-world, summoned up with magnificent power by Varèse's stringless, percussion-heavy ensemble, becomes even harsher when live music gives way to tape (the scratchy effect of the veteran recording makes for an added layer of bleakness). The performance was of the proper honesty and directness; this may not be an experience one wants to undergo very often, but its "message" is not one that should be lightly dismissed.

Sunday's Choral Symphony was the first given in London by Rattle, his orchestra and the (excellent) CBSO Chorus. Expectations were high – as they always are whenever this conductor tackles an important new project – and were amply rewarded. Not everything was yet in balance, of course. In the first movement the conductor persistently sacrificed precision of ensemble to surges of energy; his predominantly very fast tempo for the second sometimes pressed the CBSO strings (keen but not very ample in tone) into scratchiness; and in the broad *allargando* style chosen for the codas of the first three movements he risked losing momentum previously built up with such unflagging vitality.

All that said, a first Rattle Ninth is still worth infinitely more than many another Top Conductor's umpteenth go. He possesses the gift – always precious, supreme in Beethoven – of honesty, of responding to the notes of the score with freshness and a clear-eyed, open-hearted sense of commitment. In spite of the occasional cracks in the orchestra's poise, the sound of the performance was always beautifully fresh and clear, wide in dynamic range, kept buoyant by the crisp, tip-of-the-toes quality of the rhythmic articulation.

Above all, this first Ninth had dramatic intensity: the choral finale was reached by a progression that one felt to be utterly inevitable, and when it came the impact was of exhilaration almost without interruption. The team of soloists (Alison Hargan, Alfreda Hodgson, Robert Tear, Willard White) was of the right kind for this performance: not "perfect" in blend but full of musicianly zest, and, like the chorus, made newly alert to the delivery of the words.

Max Loppert

Hildegard Behrens

COVENT GARDEN

It takes a brave soprano to deliver big, dramatic chunks of Beethoven, Weber and Wagner in front of the Royal Opera curtain, which is what Miss Behrens did on Friday. It has to be said again that the Covent Garden house is not singer-friendly – not even for singers on the open stage; and the reason it needs to be said again is that amid all the flustered plans for a rebuilt Royal Opera, far too little has been heard about reforming its sound. Since we began hearing orchestral concerts and solo recitals there, the acoustic Achilles' heel has become sorely evident. In the circumstances, the Behrens performance – slightly constrained by a touch of bronchitis – was downright heroic.

For all its charms, the auditorium offers a dull, dry acoustic. Tenors have been complaining for years that they can't hear their voices bouncing back; what *we* hear is decently clear and undistorted, but deprived of any aural halo. It is remarkable that an orchestra concealed in the pit, as the Bournemouth Symphony was on Friday, makes a more vivid, better balanced impression than one on stage. A lusty voice can, on occasion, make a thrilling impact; nonetheless, any singer who sounds good at Covent Garden can sound strikingly better elsewhere.

Acoustics is not yet an exact science, as the chequered recent histories of the Lincoln Centre and the Barbican have proved. But one would like to be reassured that the planners are aware of the defect, and have practical ideas for amelioration; given the large sums of money in question, it would be truly perverse to concentrate on improving the foyers and the backstage facilities whilst leaving the problematic sound to fend for itself. At current Royal Opera prices, the audience deserves better.

Clearly the original prices for the Behrens concert were reckless – about double what the South Bank might have charged – and although there had been a hasty climb-down, many seats remained unfilled. It was, after all, a compromise-concert, a showcase for a singer: just four strenuous exhibits for the soprano star, with orchestral fill-ups as required. In fact the fill-ups were impeccably apt – Beethoven's "Prometheus" Overture before his aria "Ah! perfido," the overtures to Weber's *Oberon* and Wagner's *Flying Dutchman* as preludes to each heroine's principal *scena*, and Siegfried's Funeral March before Brünnhilde's Immolation – and conducted to expertly incisive purpose by Francis Travis.

The Behrens bronchitis incurred no more than some creaky register-shifts in "Ah! perfido," a smudge at the climax of the Weber "Ozean, du Ungeheuer" and prudently reined-in top notes for Senta and Brünnhilde. Unnaturally exposed before the stage curtain, the voice stood up nobly to unfair scrutiny. In itself it isn't one of those life-giving organs like Jessye Norman's or Pavarotti's, but it is a fine, generously scaled instrument for a thoroughbred artist. Without overt tricks, the timbre and the dramatic address were subtly altered to give each new character her own stamp; and Behrens' delivery of the great Brünnhilde peroration (with astute support from Travis, and a resplendent Dark Ages gown) was potent, searching and grandly arched – candid authority, authentic uplift.

David Murray

Giorgio Morandi: not just a painter of bottles

Giorgio Morandi was born in 1890 in Bologna and he died there in 1964. After his death, his two surviving sisters donated his – and their – collection of his works to his native city; and now, to celebrate his centenary, Bologna's Galleria Comunale di Arte Moderna has mounted an immense and imaginative exhibition, an authentic celebration of the artist and his work. The city is also restoring an old palace in the centre of Bologna, where the Morandi collection will be permanently housed.

Those who do not know Morandi's work well may think of him, perhaps dismissively, as "the painter of bottles." And even some of his admirers might think – and they would be totally mistaken – than an array of several hundred Morandis all in the same place would necessarily produce satiety and even boredom.

Instead, the exhibition demonstrates Morandi's magic variety, his unerring gift for miniaturising, for dramatising the smallest details. He could make the juxtaposition of a few objects on a flat, often anonymous surface, express anything he chose. Indeed, the same object – the little orange coffee pot, for example, in two still-lifes of 1958 and 1959 – can assume different characters. In the earlier picture is squarely in the centre, protagonist, flanked – as if guarded – by a slender milk-white little bottle; in the later painting, the white bottle is gone, the coffee-pot is no longer in the foreground and another object, a bud-vase, of the same bold orange colour has appeared; the objects are more numerous and in a rough line, like a chorus. The coffee-pot has returned to the ranks.

After a while in the great rooms of the Bologna exhibition, you re-tune your eyes. It is like adjusting to chamber-music after a week at Symphony Hall. You begin to recogise an object from one painting to the next, you begin to find significance in the object's distance from the table-edge (if there is an edge indicated), or in the angle of the painter's viewpoint. The light changes: some of the works seem clearly to be "morning" pictures, others are more crepuscular. The invention is endless; there are no repetitions.

Of course, Morandi did not paint only still lifes (there is a magnificent self-portrait in the Magnani-Rocca collection, not far from Bologna): but he deliberately kept his world small. He travelled very little, and for most of his life he stayed in Bologna, saw the same few friends, taught techniques of engraving at the Fine Arts Academy. In the summer, and during a certain wartime period, he and his sisters went to stay at Grizzana, a little town in the Bolognese Appenines. Grizzana figures in a number of works. But in general he stayed in his studio in Via Fondazza and, when he turned his eyes away from his bottles, he looked out of the window into the small, anonymous courtyard, or up at the rooftops, the TV antennas, the sky (in one picture, a white streak in the sky, the wake of a jet, has a searing impact).

If you look at the bottles long enough, they begin to seem animate, human. Similarly, if you look long enough at the landscapes and the views of Morandi's courtyard, they seem to turn into objects. Not bottles, exactly, but shapes. In a haunting war-time landscape of 1943 (in the Mestre collection, Bergamo), the line of stubby trees in the foreground and the block-like barn in the background could, you think, be reduced to bottle-size and set on a Morandi shelf.

Morandi's brief flirtation with with metaphysical school and its leader De Chirico produced only a few works, now extremely hard to find, and even on them there is a Morandi imprint: De Chirico's haunted squares and towers are transmogrified into bowls and apples and bottles; again, the drama is allegorised.

William Weaver

Alastair Muir

Anne-Marie Owens and Anne Collins in a new production of 'Ariadne and Bluebeard' by Paul Dukas, which opened Opera North's new season in Leeds last night. Directed by Patrick Mason and conducted by Opera North's new musical director Paul Daniel, it will be reviewed by Max Loppert in tomorrow's paper.

ARTS GUIDE

September 14-20

OPERA AND BALLET

London

Royal Opera, Covent Garden. The opening production of the season is *Turandot*, in a production by Andrei Serban that counts as one of the company's most colourful and imaginative efforts of the last decade. Ghena Dimitrova, Vladimir Popov, Lucia Mazzaria, and Robert Lloyd take leading roles, and Colin Davis is the conductor.
English National Opera, Coliseum. More performances of the new production of *Wozzeck*, conducted by Mark Elder, staged by David Pountney, with Donald Maxwell in the title role, and Kristine Ciesinski, Alan Woodrow, Richard Angas and John Treleaven also in the cast. Janice Cairns, David Rendall and Neil Howlett take the leads in Jonathan Miller's 1940s-style *Tosca* production; further performances of the ENO's delightful *Magic Flute*, conducted by Jane Glover, with Cathryn Pope, Neill Archer and Benjamin Luxon.
Dance. Sadler's Wells is host to the Ballets Africains: an exotic evening out.

Paris

Théâtre de la Ville. Odile duboc presents *Insurrection* inspired by the movement of crowds in the streets during theFrench revolution (42742277).
Théâtre des Champs Elysées. New York's Joffrey Ballet and the Orchestre National de France conducted by Allan Lewis bring Satie, Debussy and Stravinsky's Le Sacré du Printemps in its original version in Nijinsky's choreography to the very theatre where it was first performed in 1913 (47203837).
Chatelet. The new production of the dramatic legend *La Damnation de Faust* is performed by the PhilharmoniaOrchestra with John Eliot Gardiner as conductor and by the Théâtre du Chatelet choir conducted by Donald Palumbo (40282840).

Brussels

Théâtre Royal de la Monnaie. The Monnaie opera, chorus and orchestra in Verdi's *Simon Boccanegra* conducted by Carlo Tommasi, staging by Gilbert Deflo with Jose Van Dam (bass) as Simon, Nancy Gustafson (sop) as Amelia, David Pittsinger (bass/baritone) as Fiesco.
Palais des Beaux-Arts. The Stockholm Symfonietta with the Nederlands concert tour and soloists perform Mozart's *Don Giovanni* (concert version) (Sun).

Liège

Palais des Sport. The Royal Wallonia opera in *Cavalleria Rusticana*.

Amsterdam

Muziektheater. The Netherlands Opera with a new production of *Parsifal* directed by Klaus-Michael Grüber. Netherlands Philharmonic is conducted by Hartmut Haenchen, with Barry McCauley in the title role. The National Ballet performs *Memories from Underground* (Van Dantzig/Henze) and *Requiem* (Van Schayk/Mozart) (255 455). Nederlands Danstheater with three Kylian ballets: *Overgrown Path*, *Soodeblue* and *Sarabande* (255 455).

Barcelona

Gran Teatre del Liceu. Mozart's *Don Giovanni* alternates conductors Wolfgang Sawallisch and Peter Schreier in a production by the Bayerische Staatsoper München. Ends September 28.

Parma

Verdi Festival (until Sept 30) the French version of *Il Trovatore*, *Le Trouvere*, in a critical edition revised by David Lawton, performed by the orchestra and choir of the Paris Opéra conducted by Vjekoslav Sutej, with the Scala Ballet Company. The cast includes Daniela Dessi, Elisabetta Florillo, Kristjan Johannsson, Lajos Miller and Guy Gabelle. Festival includes round-table discussion with Julian Budden and concerts (218857).

Berlin

Opera. *Die Zauberflöte* has fine interpretations by Elfie Hobarth/Gudrun Siebert, Lucy Peacock, Gerd Feldhoff and Bengt Rundgren. As part of this year's Berlin festival the Dresden Opera performs *Die Liebe zu drei Orangen* and *Elektra*. *Rigoletto* and *Madame Butterfly* complete the week.

Hamburg

Opera. *Der Liebestrank* is perfectly cast with Alida Ferrarini, Franzisco Araiza, J. Patrick Raftery and Rolando Panerai. *Der fliegende Holländer* stars Hildegard Behrens, Franz Grundheber in the title role, Heinz Kruse and Harald Stamm. Brecht/Weill's *Aufstieg und Fall der Stadt Mahagonny* returns.

Frankfurt

Opera. *Die Nase*, excellently produced by Johannes Schaaf has William Cochran in the title role. *Macbeth* stars Rosalind Plowright, Juergen Freier, Rene Pape, conducted by Imre Pallo. Gluck's rarely played *Iphigenie en Tauride* and William Forsythe's ballet Limb's Theorem are both returning.

Bonn

Opera. The successful new *Rigoletto* production by Graham Vick, is wonderfully sung by Jean-Philippe Lafont in the title role, Mariella Devia, Dennis O'Neill and Victoria Vergara.

Stuttgart

Opera. *Werther*, sung in French, returns with Marilyn Schmiege, Marcela Holzapfel, Neil Wilson and Tero Hannula. *Der fliegende Holländer* features Sabine Hass, Toni Kraemer, Wolfgang Probst/Robert Hale. *Figaros Hochzeit* features Melanie Kreuter, Helmut Holzapfel, Milagro Vargas and Carmen Mammoser.

Cologne

Opera. *Fidelio*, conducted by Cologne's music director James Conlon. With Nadine Secunde (Leonore), Hartmut Welker (Don Pizarro), Ben Heppner (Florestan) and Matthias Hoelle (Rocco). *Siegfried*, part of the new Ring cycle in a co-production with the Düsseldorf Opera, produced by Kurt Horres, is sung by William Johns, Martin Finke, Anne Gjevang and Deborah Polaski. Also *Madame Butterfly*.

New York

New York City Opera. The week features *Street Scene* in Jack O'Brien's production conducted by Chris Nance with Margaret Cusack as Anna Murrant and Kevin Anderson as Sam Kaplan. John Absalom is Luka Kuzmic and Jon Garrison is Skuratov in Rhoda Levine's production of *From the House of the Dead* conducted by Christopher Keene. Sharon Graham has the title role in Frank Corsaro's 1930s production of *Carmen* conducted by Hal France with John Absalom as Don Jose. New York State Theatre, Lincoln Center (870 5570).

Chicago

Lyric Opera. The company's 36th season opens with Gluck's *Alceste* with Jessye Norman in the title role, Chris Merritt as Admete and John Brandstetter as the High Priest in Robert Wilson's production conducted by Gary Bertini. Civic Opera House (332 2244).

Tokyo

Salome. New production conducted by Seiji Ozawa, with Eva Marton, Ragnar Ulfung and Helga Dernesch. Tama Parthenon (0423 76 8181).
Moiseyev Ballet. The famous folk dance company from the Soviet Union. Tokyo Bunka Kaikan (from Thur) (587 0571).

The Promise

LATCHMERE THEATRE, LONDON

Here is a Russian play which, were it not for the local and historical references, could almost be mistaken as quintessentially English. For Leningrad under siege in 1942, read London in the Blitz in 1940. The characters make the best of the conditions and talk in understatements. *The Promise* by Aleksei Arbuzov was first performed in London in 1967 with Judi Dench, Ian McKellen and Ian McShane. It is revived at the Latchmere Theatre with a cast just as promising. Between times political conditions in the Soviet Union have changed. But don't become distracted by looking for political significance. *The Promise* is a good play in its own right.

The promise referred to is really the hope that came out of surviving the Leningrad siege, coupled with the belief that there must be better things to come. As indeed there are. Although the action takes place throughout in the same Leningrad apartment room, spanning the period 1942 to New Year's Eve 1959, the material standard of living visibly improves. At the start the characters use what furniture there is for firewood; by the end they are not too badly off with a telephone and a record-player. Music has quite a strong role in the play.

It is not entirely political and economic conditions that upset them. It is the *ménage-à-trois* that is difficult to resolve. Lika, a near-16-year-old girl, played by Helen Baxendale, takes refuge in the room during the siege. She is joined by the slightly older Marat (Clive Hayward), who was brought up there. Then enters the young poet Leonidik (Brian Mitchell). Both men love Lika: she appears to love the pair of them and the men are very fond of each other, though not in any sexual way – everything is very delicately done.

The men go off to the war. Marat comes back a Hero of the Soviet Union, Leonidik with a wounded arm and a drink problem, but looking very distinguished. It could be England 1945. Lika marries Leonidik who, 13 years later, decides to get out to allow Marat to take over.

There is some satire, of course. Marat describes Leonidik's published poetry as "working without breaking the rules." He is plainly not referring to the metre. All the characters object to apartments being referred to in the socialist jargon of "living accommodation." Yet for the most part English understatement prevails: an air attack on Leningrad is described as "a bit of a do," just as it might be in Rattigan's *Flare Path*. The play, directed by Peter Settelen, runs until September 29.

Malcolm Rutherford

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Déjà vu for jobs

ELEVEN YEARS after its last cyclical trough, in 1979, British unemployment is rising once more. But it is, alas, rising from a higher level than its lowest point in that year. The unemployment rate at which inflation remains stable does not appear to have fallen and may even have risen over the past decade. Further reforms in the structure of the British labour market must be introduced, if the 1990s are not to see a repetition of the failings of the 1970s and 1980s.

Unemployment is now set to rise well into next year. Fear of unemployment is, indeed, the only available means of curbing inflationary wage settlements, given the current unsatisfactory nature of wage bargaining. But unemployment is both economically costly and hard to remove.

Compared to the previous low of 4.3 per cent of the labour force in 1979, unemployment began rising in March of this year from 5.6 per cent. Standard explanations for this apparent deterioration over the cycle – higher unemployment benefits or increased trade union membership – do not apply to Britain in the Thatcher decade. The severity of the 1980-81 recession and the subsequent transformation of cyclical to structural unemployment are the keys to understanding this development.

The unemployment created by the previous recession fell disproportionately on unskilled males previously in industrial employment outside the south and south-east of the country. For males under 25 and over 45 years of age unemployment rates remained, even in 1989, almost twice the national average and double the 1979 levels.

Higher settlements

The output recovery in 1982 did not stem the rise in unemployment. As productivity increased, unions negotiated wage increases on behalf of their currently employed members. Similarly, companies found it more profitable to reward their current employees rather than increase employment. Thus the rapid productivity gains of the 1980s were translated into higher real wages for employed "insiders" and higher profits for the shareholders.

Meanwhile, unemployed "outsiders" saw little improvement in their employment prospects. The proportion of males out of work for over one year increased from 28 per cent of total unemployment in 1979 to 45 per cent in 1988 and 35 per cent today, despite a substantial decline in the participation rates of older men.

Problems of adapting

Vacancy rates began to recover after 1982. But many of the long-term unemployed were unable to adapt to – or search effectively for – such employment opportunities as then arose. Employers were also noticeably reluctant to consider them for jobs. In consequence, high levels of long-term unemployment were an ineffective check on resurgent wage inflation.

It is not that the labour market reforms of the 1980s have been ineffective. But they have delivered higher growth of output and productivity rather than higher industrial employment. Many of the long-term unemployed have, as a result, been excluded from the fruits of the new flexibility.

How are the long-term unemployed to be brought back into the labour market? The days of high wage, low skill jobs are gone. Both school-leavers and the unemployed must be equipped with skills relevant to the needs of modern industry.

The Swedish approach combines some of the ingredients: extensive opportunities for acquiring new skills; a comprehensive placement service; subsidies to employers who hire the long-term unemployed; and temporary public sector employment for those unable to find work after one year of unemployment.

A substantial rise in unemployment is now assured. But a rise in long-term unemployment can and should be avoided. Long-term unemployment is damaging to the individual and useless to the economy. Major changes are needed in the structure of wage bargaining, in training opportunities and in incentives for the unemployed if the structural deterioration of the past two decades is to be reversed, rather than compounded.

Entry barriers for airlines

COMPETITION in the airline industry depends on the ability of airlines to start operating any route if they so desire. But this ability is jeopardised by a system of allocating the capacity of airports that favours the incumbent. Airlines have property rights in the capacity – the "slots" – that they use at an airport, and the allocation of any surplus slots is managed by the airlines flying from that airport. The system functions because some surplus slots usually arise every year; airlines already operating from an airport may be able to increase their services or enter new routes. But newcomers may be unable to gain access to a busy airport like Heathrow.

The European Commission has proposed that airlines which are not already operating from an airport at certain times, but which wish to do so, should have priority in the allocation of any slots which become available; and, if no slots become available after a year, established operators could be compelled to give up some slots.

This proposal implies a radical change in the present informal system: but changes have to be made. If competition is to develop in European scheduled services, airlines cannot go on agreeing how they share airport capacity. But the European Commission's proposals do not go far enough. They leave intact the curious system under which the airlines own the slots which they use, ownership which they have acquired simply by being there when the services began from that airport.

Allocating capacity

The normal method of allocating scarce capacity in a market economy is to sell it. For slots to be auctioned instead of shared would be a revolution for the airlines and would remove what they regard as one of their most valuable assets. But they are valuable because they give the airlines some control over the market; and the thrust of policy towards the airlines in Europe is to weaken this control.

The relevant question is whether less radical changes, such as the European Commission's proposals, are likely to produce superior results. The Commission's scheme would allow newcomers to obtain some slots, but they would have to wait two years for them at congested airports and they seem unlikely to obtain as many as they would want. Both these attributes would hamper entrants, who might have under-employed assets and staff while they were waiting, and might not be able to operate at commercially-desirable frequencies once their service could start. The latter could weaken their competitiveness because entrants have to balance high frequencies against low fares in their battle for traffic with incumbent airlines; if they could not offer high frequencies, they would have one competitive weapon instead of two.

More slots

If slots were sold, airlines would pay what they were worth to them; the provision of services would match more closely their value to travellers, and less the results of history or a regulator's judgment. Entrants would be able to get slots when they wanted them, up to the number they thought worth buying.

Incumbents might seek to bid up prices to discourage new competitors; some regulators fear that richer airlines could exploit their strength to push up prices beyond the means of newcomers. But their ability to do so would depend on the effectiveness of their efforts to maintain monopoly power on some parts of their network. Auctioning of slots is also said to be inconsistent with the the regulations of the International Civil Aviation Organisation, which requires airports to earn only reasonable rates of return. But this provision was intended to protect airlines against abuses of monopoly power; if landing charges are what airlines are willing to pay, such regulations seem unnecessary.

The problem is one of preventing the acquisition of monopoly power by airlines or regulating its use. It is an argument for promoting competition and regulating monopolies, not an argument against the use of market forces. The Commission's proposals should be regarded as a step towards more radical changes.

John Griffiths and Andrew Fisher on the proposed marriage of Continental and Pirelli's world tyre operations

Bidding for a heavier tread

Speculation about a possible "marriage" between Continental of West Germany and the world tyre operations of Pirelli, the Italian tyres and cables group, has been going the rounds of the industry for more than two years.

That Continental has nevertheless been caught off guard by the actual form in which Pirelli has popped the question was evident from its terse statement yesterday that it is "reviewing" Pirelli's proposals for what amounts to a backdoor takeover.

On the face of it, Pirelli's proposal to combine the tyre companies evidences a desire for a merger of equals. Pirelli would have management control, but Continental would continue to exist as a German company with its own shareholders and brands (Continental, Semperit, and Uni).

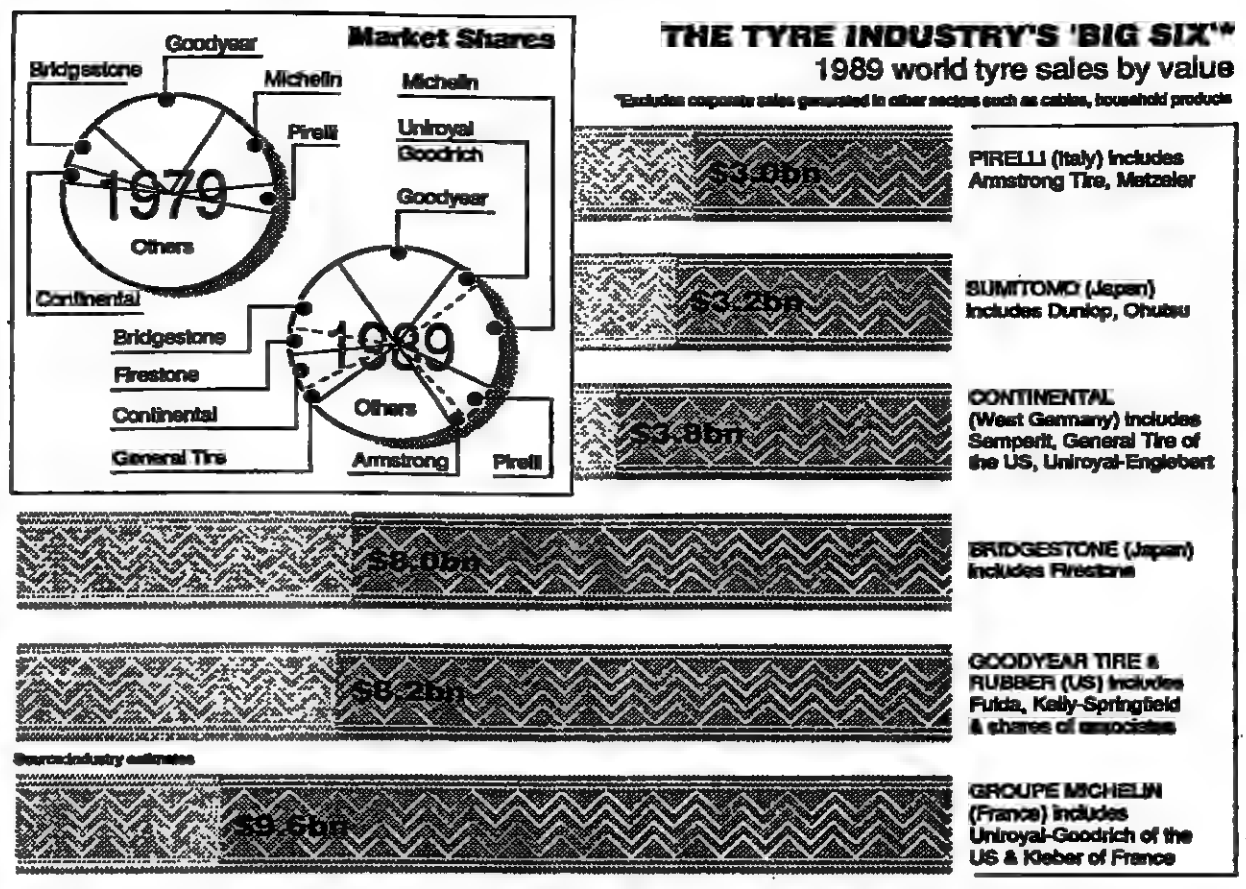
However, Pirelli claims, with apparent conviction, that it has quietly obtained prior support from a big enough body of Continental shareholders to ensure that its proposals go through. The Italian proposal thus presents Mr Horst Urban, Continental's chief executive, with a tough challenge in his fight to keep the tyremaker independent. If Pirelli is successful, the group that would emerge would have combined tyre sales of DM13bn (£4.4bn) and a 16 per cent share of the world tyre market.

The effects of the proposed merger would be quite different from what they would have been, say, two years ago. Then, such a move would have left Pirelli/Continental challenging Goodyear of the US for the world industry's leadership. Now, so fast has been the pace of rationalisation that even the combined group would be in exactly the same place in the world league table – fourth – as Continental is on its own.

Moreover, although the merger may enable the two companies to improve production and distribution and share research and development costs, it will not have any impact on the fundamental problems facing the world tyre industry: over-capacity, once again approaching the 20 per cent level which precipitated a big shakeout in the industry a decade ago; and a consequent squeeze on profit margins which is expected to intensify over the next one or two years.

This year has seen a string of profoundly gloomy profit figures and forecasts from the majority of the six companies that control more than 85 per cent of the $45bn a year world tyre market:

- Conti itself recently reported a 39 per cent plunge in first half pre-tax profits and has warned that its earnings for the full year will fall "significantly short" of 1989, when it made DM369.3m at the pre-tax level and DM227.8m net.
- Mr Francois Michelin, chairman of the French Groupe Michelin whose $1.5bn purchase of Uniroyal-Goodrich of the US last year made it the world tyre market leader, has warned that Michelin faces three or four "difficult years" in which losses cannot be ruled out.
- A net loss of $65m for the third quarter is being being forecast by Goodyear, the only remaining US-owned big tyres group, which was recently demoted by Michelin from its position as the world's biggest tyre maker. It has warned that 1,200 jobs are to go from its European operations.
- Pirelli Tyre Holdings, the Amsterdam-headquartered holding company for Pirelli's world tyre operations, has also just reported a 61 per cent drop in first half profits.



To a large extent, the figures are the result of the industry shooting itself in the foot again. In spite of the lesson of the late 1970s and early 1980s that markets can turn down at high speed, the tyre majors have been adding capacity at a very rapid rate during the past few years.

If the merger goes through, it will be the last big restructuring for the industry

In the past three years, more than $10bn worth of new or modernised capacity has been completed or announced.

Yet this has been coming on stream just as car markets have begun to turn down after several years of record growth. The inevitable result is that western vehicle makers, feeling the chill winds of competition from Japan, are in a strong position to pare the tyre makers' profit margins, and have been doing so eagerly. In its recent interim report, Continental referred to "a real price war", adding that it could not say when this would end.

It is against this background that Pirelli has chosen to act.

Continental's Mr Urban, however, believes that Continental is strong enough to ride out the storm on its own. Through its 1987 takeover of General Tire, it is represented in the US market, while links with Toyo Tire and Rubber have strengthened its position in Japan. Moreover, as Mr Urban stresses, Continental's financial position remains better than some of its competitors, including Pirelli.

On the other hand, the Italian company has some powerful cards. Those (mainly European) institutional shareholders which have decided to back Pirelli believe the days of the smaller producers are numbered in an increasingly global industry. Automobile producers want to rely on fewer suppliers and to sign longer-term contracts.

"Conti is too small to compete with a company like Goodyear (the US group which is the world's number two) and too large to be a niche player," says Mr Michael Treichl, a managing director of Merrill Lynch, the US securities house. "Major tyre suppliers have got to be able to follow their customers geographically, technologically, and in terms of production."

As the number four producer, with about 9 per cent of the tyre business in western markets – Pirelli, the number five, has some 7 per cent – Continental is some way behind the leaders. Collectively, France's Michelin, Goodyear, and Bridgestone of Japan have well over half the market. Moreover, Bridgestone is now thought to be ready to start moving more energetically into European markets, thus possibly putting even more pressure on prices.

Conti and Pirelli are a good 'fit' in several areas. Each has a second-rank tyre company in the US – Conti has General Tire and Pirelli has Armstrong – which could be developed into a major market force. Pirelli is strong in Latin America, from which Conti is almost entirely absent and where the brand could be introduced with advantage. Both Pirelli and Continental are actively pursuing growth potential in eastern Europe and some Far Eastern markets like Malaysia and Thailand.

Yet in no sense can immediate prospects be described as good. Before the start of this year, Pirelli had been forecasting 1-1.5 per cent growth in the total market for tyres, both original equipment and replacement. The Gulf crisis and subsequent economic downturn make it much more likely that demand will be flat instead – and at lower profit margins.

One thing, however, seems all but certain. If it goes through, this will be the last big restructuring for the industry, leaving only four players controlling most of the world business.

A bumpy ride since quotation

FLOATED on the Amsterdam stock exchange in June last year, Pirelli Tyre Holding (PTH) has had a bumpy ride since being split off from its parent company.

With a 61 per cent plunge in net profits to Fl40m (£12m) in the first six months of this year, the group bears eloquent testimony to the difficulties being faced by the world's tyre manufacturers.

While its European business has gone relatively well, with sales even rising slightly, matters have been different in the US and Latin America, where PTH is exposed through its ownership of Armstrong Tire and its Brazilian operations.

Armstrong is in the middle of a $250m, five-year investment programme to bring its production capacity up to European standards and allow it to produce the premium tyres for which Pirelli is best known.

Meanwhile, PTH's Brazilian operation has been hit by financial and market-related setbacks linked closely to the country's own financial plight. Among the things dragging down first-half earnings at PTH was the shift in interest income at its South American operations, which, for the first time, was negative after allowing for inflation.

But the group has strengths which have allowed it to perform better than many rivals despite the weakness of its latest figures. Most important is its presence in the premium sector of the car tyre market – notably for the more expensive sports tyres used on high performance cars – which has partly protected it from some of the vicissitudes of the world market.

Moreover, the fact that PTH is not particularly dependent on winter tyres means it has been spared some of the difficulties which have afflicted other European manufacturers in recent years as a result of milder winter weather.

Linking with Continental should bring many advantages. The two companies have relatively little overlap, limiting the likely rationalisation costs.

Although there may be some manpower reductions, job losses do not appear to be the most immediate source of savings following the merger, according to industry sources close to Pirelli.

Rather, the benefits look set to come in other ways. The combined group should be better placed to resist the pressure for lower prices which has been evident in both the market for original equipment and replacement tyres for some years.

There is talk of better use of the companies' assets in order to reach higher production levels, or maintain current production at lower cost.

While acknowledging the severe over-capacity in the market, Pirelli thinks that both its own plant and that of Continental is modern and cost-effective compared with others in the industry. Hence the finger of rationalisation, which all admit must come, is seen to be pointing to other manufacturers using older plant and making lower-quality tyres. Merging PTH and Continental is primarily a way of increasing the pressure on other, less-efficient tyre makers to reduce their own capacity.

There should also be opportunities for savings in distribution, with the gradual adoption of a more efficient network, eliminating smaller outlets and lowering overall costs. Savings are also predicted in logistics and group administration.

Further efficiencies could also be gained in research and development, although the thinking here seems to concentrate primarily on the more efficient use of existing resources rather than outright spending cuts. The aim would be to avoid duplicating R&D efforts, and to use the resulting savings to step up research on a wider range of products.

Haig Simonian

OBSERVER

French chains of office

■ The resignation of Jacques Médecin, mayor of Nice and chairman of the departmental council of Alpes Maritimes, marks the end of an era which goes back two generations.

For the year of his birth, 1928, was also the year in which his father was first elected mayor of Nice, a post which he held continuously for the next 38 years. His son then took over at the age of 38, and has held sway over the town hall ever since.

In France the town hall has played a vital role as a power base in the political system. In some ways it is more prized even than a parliamentary seat in the National Assembly. But only one man in the French political firmament can claim a record which beats that of Jacques Médecin. He is Jacques Chaban-Delmas, the former conservative prime minister, who has been mayor of Bordeaux ever since 1947.

In spite of Médecin's sudden departure, French local politics is likely to become more important in future, partly because decentralisation has increased the powers of the town halls, partly because legislation now limits the number of elected offices any one man can hold. Indeed, some leading local politicians now choose to surrender their parliamentary seats in order to keep their local offices. In 1988 Jacques Médecin was one of them.

The downside is that local politics creates incentives for gangland behaviour and questionable practices. Jacques Médecin has long been notorious as the outrageously feudal boss of Nice. The national leaders of the respectable political parties are glad to see him go.

To the authorities he is the mayor who somehow got FFr15m (£1.51m) behind in his tax payments. And the judicial system is currently closing in on him in a case alleging the diversion of FFr5m of public funds.

It is the last threat which has finally induced him to bring 62 years of Médecin reign to a close.

Writers' clamp

■ Jacques Delors must be starting to wonder whether his luck is running out.

As rifts appear between EC finance ministers over the timetable for the Delors plan for monetary union, another setback threatens the momentum of European integration. This time, it is a looming shortage of stationery and office supplies at the Brussels Commission.

For a bureaucracy whose vital functions depend on churning out torrents of paperwork on everything from axle weights to sheepmeat quotas, this is a crisis. It strikes just as the Commission's productivity is hitting new peaks. According to Richard Hay, its chief of personnel and administration, the number of documents produced rose 9 per cent last year – and that without a corresponding increase in staff.

In a directive to other heads of departments, Hay says the time has come for self-restraint. He warns of impending shortages of supplies including photo-copying paper, typewriter and computer printer ribbons, floppy disks, envelopes, paste, and marker pens.

The austerity regime is made necessary by spending constraints, he says. Well, at least he hasn't tried to blame it all on Saddam Hussein.

RADA act

■ The film director and producer Sir Richard Attenborough is appearing on British television peering out of an advertisement for British Satellite Broadcasting.

He does his "turn" as a customer in an Indian restaurant splitting the bill with his mates, a side-long reference to his Oscar winning film Gandhi.

"It's an offer of a Tornado time-share."

Much good is going to come of this innocent fun, however. He is putting his £50,000 appearance money, plus another £50,000 grant from BSB, to create a bursary for a student at the Royal Academy of Dramatic Art where he once trained as an actor.

The need for such bursaries is great, Attenborough says, because not all drama students can get grants. Some, he claims, are now having to sleep on the floors of the academy in sleeping bags.

Seven other celebrities who appear in the advertisements, ranging from the England football captain Gary Lineker to actor Jason Donovan, didn't negotiate their fees quite as well. They are splitting £150,000 among them.

Attenborough is supporting a campaign to raise £15m for RADA, for expansion and bursaries. It has already been boosted by £1m from British Telecom. That useful sum was the fee BT paid for the provision of 20 "stars" to publicise this year's change-over in the *London telephone numbers*.

Front-lines

■ The eruption of the Gulf crisis in early August stopped the British newspapers' traditional silly season in its tracks this year.

But the emergence of the exotic by-line has made up for it. And there is no sign of the fashion waning as summer turns to autumn.

The name of Robert Fisk of the Independent appeared "With the USAF's 1st Tactical Fighter Wing in Saudi Arabia," shortly after he had been "In Raghwa Fort, on Saudi-Kuwaiti Frontier." Beau Geste all over again, I feel. The same paper's middle east editor wrote a piece with the byline: "From Patrick Cockburn, the first newspaperman to be admitted to Baghdad."

After that every correspondent had to be somewhere very hot, surrounded by military hardware, and preferably airborne at the time of writing.

The Sunday Telegraph has even brought the fad back home with a piece filed from "Clarence House" for the Queen Mother's birthday.

Spare parts

■ A young camel was questioning its parents. "Why do we have such long eyelashes?" he asked. "Sandstorms," his father replied. "They help keep the sand out when the wind blows."

"What about this hump, then?" the youngster continued. "That's our water supply so we can walk from Kuwait to Riyadh," his mother told him. "I don't like this horrible thick skin", said junior. Father rebuked him. "You need it to insulate you against temperatures ranging from 120 degrees in the day to below freezing at night".

The youngster retorted: "What! – in Chester Zoo?"

LETTERS

Nato pact does not limit out-of-area action

From Sir John Graham.

Sir, General Galvin, the Supreme Allied Commander Europe (Saceur), has called for a review of the restrictions or inhibitions which it is often suggested apply to action by Nato *outside* the treaty area. ("Commander foresees new role for Nato," September 10).

I believe that this call may arise from a misunderstanding. There is no legal limitation in the North *Atlantic* Treaty on action by members of Nato, whether jointly or severally, outside the treaty area. Indeed, Article 4 provides a general rubric under which consultation may take place within the alliance when any party considers that its security is threatened, and *it does not* require much interpretation to extend that to situations outside the treaty *area, if the* parties so wish. Any joint action decided upon as a result would be a matter for *political* judgment and agreement among *the 16 member states, on the* basis, no *doubt*, of military and other advice. Thus, the legal and institutional framework exists: any inhibitions are political.

There may well be a case for improving the military arrangements for out-of-area action but that is another story and can be effected without treaty revision. The ACE Mobile Force already provides the nucleus of a rapid deployment force, albeit lightly armed.

Such legal restriction as exists arises from Article 5, read with Article 6, which defines the treaty area. Article 5 commits the parties to come to each other's defence if their *territories or forces* are attacked. This is the core commitment in any treaty of *mutual defence. It is* significant that because of American fears at the time that the *treaty was negotiated* that the commitment might embroil the *US* in Europe's residual colonial troubles, the obligation in Article 5 is not mandatory but *discretionary* – "*such action* as it deems necessary" – and the colonial territories of the European *powers were* excluded, with the exception of France's North African departments.

To go further than Articles 4 and 5 and to import a binding commitment to act together outside the treaty area in unspecified circumstances, but presumably in defence of vaguely defined security interests or of other regions or states not party to the treaty and therefore not bound by any reciprocal obligation, goes much further than would seem practicable or prudent. It would convert a treaty of mutual defence into a different *animal*, for if the *states* thus to be protected were to be specified, the treaty would become *one of unilateral* guarantee, a guarantee moreover of states over whose internal and external policies the guarantor would have no control; and if *they are not so named*, or the interests are not defined, what would be gained that Article 4 *does not already give* – *the* right to consider together an out-of-area threat, and to *decide appropriate* action?

There is a further political factor to be taken into account. In the regions outside the treaty area, western Europe and north America, alliances such as Nato are seen as alien and hostile. The rest of the world can barely be brought to accept the authority of the United Nations: it is not going to accept Nato as a self-appointed policeman. Joint operations out-of-area by members of Nato should not be mounted under a Nato flag. Far better to stick with Article 4.

John Graham,
Ditchley Park,
Enstone, Oxford

Universities and research charges

From Mr John Griffin.

Sir, It would be wrong to infer from your brief report of my speech ("Universities accused over research costs," September 13) that the pharmaceutical industry is not prepared to pay the full, direct and calculated costs of research collaboration with university departments.

What is at issue is the quite staggering variation in charges made and who gets the money.

Following my speech at the British Pharmaceutical Conference, a mini-survey among the academic audience, conducted by the session chairman, Professor P.F. D'Arcy, showed recognised centres of research excellence as charging reasonable overheads and retaining all the income they had generated, including 100 per cent of overheads, within their department.

At the other end of the spectrum was a research department within one university charging overhead costs of 200 per cent but keeping as little as 20 per cent of this amount within the department obtaining the contract, while the remainder subsidised other less successful departments.

I quite agree that universities are not part of the welfare state. And neither are we.

John Griffin,
director,
The Association of the British Pharmaceutical Industry,
12 Whitehall, SW1

Prof Raymond Williams 'was not a Marxist'

From Mrs Raymond Williams.

Sir, May I correct two serious errors of fact concerning my late husband Professor Raymond Williams, in Geoffrey Moore's article ("Holy, holy, holy, guru almighty," September 1)? The occasion was the publication of Volume 2 of People of the Black Mountains and the reissue of Culture and Society.

Both Geoffrey Moore and your caption state that Raymond was a Marxist. He was not a Marxist. On his frequent visits to European universities, *at which I was present* and took notes, it was often pointed out that he was not and that he *did not conform to Marxist* theories of culture, in particular to the theory of reflection, a theory which Marxists themselves have since abandoned.

As to the point that Culture *and Society did not contain* a detailed study of the words: this was part of the original work, *but omitted by the publishers*. In a much extended form, entitled Keywords, it was *published in 1976 by Fontana*, and was a surprise best seller.

Joy Williams,
4 Common Hill,
Saffron Walden, Essex

AMPS issues are not pursued lightly

From Mr Kevan Watts.

Sir, Lex (September 10) was generally critical of the use of auction market preferred stock ("AMPS") by UK companies. Because Merrill Lynch has arranged *several of these* issues and indeed originated this application of AMPS, I *should like to respond.*

The precise balance sheet and other implications of an *issue of AMPS vary from company* to company depending on the use of proceeds, the issuing structure and *other factors*, and we advise our clients to discuss such questions with their own auditors. However, certain important features of the security itself are incontrovertible:

- AMPS are subordinated to all debt.
- *AMPS* are undated and the investors have no ability to put the securities to issuers.
- *If a company fails* to make a dividend payment on AMPS outstanding, it is not forced into bankruptcy.

These features, which are overlooked in *Lex's* commentary, are important to accountants' readiness *to treat AMPS* as part of shareholders' equity. The analogy with Euroconvertibles with a put *option* is inappropriate, because the AMPS investor does not have the abil*ity to put the security to the* issuer.

Moreover, while a dramatic *deterioration in a company's* creditworthiness will increase the cost of AMPS outstanding, *these costs are subject to a ceiling*, and the company is not compelled in these circumstances to refinance the *AMPS*.

Turning to the dividend costs, *it is* true that these will vary from month to month in line with *short-term* US interest rates. But it does not follow that issuers need face uncertainty as to future dividend costs. For the reason I have already explained, the obligation to make dividend payments, although serious and not lightly ignored, is never*theless radically different to* debt service obligations.

Furthermore, issuers can *manage the exposure to US* short-term interest rates in the context of their overall balance *sheets*, using *interest rate* swaps or options as appropriate.

US investors will only purchase AMPS to which strong credit ratings are assigned. In *our experience, the US rating* agencies will only assign such ratings to AMPS issues where *the agencies* are convinced that the management of the company in question fully understands the nature of the security and how to manage the dividend costs.

Given also the need, in many cases, to seek shareholder approval, AMPS issues are not pursued by UK companies lightly, or without due regard to all aspects of the security.

Kevan Watts,
Merrill Lynch International,
Ropemaker Place,
25 Ropemaker Street, EC2

An 'obviously sensible' claim

From Mr Daniel Vullialy.

Sir, The Government responded to the recent spate of rail accidents by a largely unnoticed statement last month that it is to meet a long-standing demand of the rail unions and transfer responsibility for health and safety enforcement in the industry from the Department of Transport to the Health and Safety Executive (part of the Department of Employment).

An important demand of the offshore oil and gas workers in *their dispute* is for their safety enforcement to be transferred to the Health and Safety Executive. Which prompts the question: how many serious disasters offshore will it take before the Government "promptly" reacts by acceding to an obviously sensible claim?

Daniel Vullialy,
School of Adult and Continuing Education,
University of Hull

A chance for Mr Patten to show 'greenness'

From Mr C.W. Humphreys.

Sir, Now that there is, quite rightly, to be a public inquiry into the future of Spitalfields, Mr Chris Patten, the Environment Secretary, has a unique opportunity to demonstrate his "greenness." There is little chance that any development scheme will do justice to this important site and it is less than obvious that this part of London has a need for yet more office space, so why not opt for the bold solution and give the City a new park? That really would be refreshing.

C.W. Humphreys,
Allison & Humphreys,
40 Artillery Lane, E1

BR's need is for a quick, bold separation from government

From Professor W.P. Bradshaw.

Sir, Several debatable issues are raised in your editorial comment ("When to sell the railways," September 12).

The huge annual subsidies allowed to company-financed motorists and the unwillingness to charge market prices for congested city centre highways make a *mockery of* arguments which suggest that railway users are not paying *economically rational fares. If* these anomalies were corrected railway fares could rise to lev*els where subsidy, other* than on rural lines, would be unnecessary. Why single out railway users *for rational* treatment?

The *prospects for* privatisation of BR by 1995, which were based *upon* a very bullish view of the economy taken nearly two years ago, have not only been dimmed by recession but also by the requirement, following the Clapham accident, to spend as much as £1.5bn on enhancing railway safety. Again very different standards are used to judge road and rail transport, with a requirement in the latter case to spend heavily to make the much safer railway even safer.

Forecasts of road traffic growth in Britain predict a doubling of vehicle *mileage* in the next 25 years. The recently expanded road programme offers at most *about 10 per cent* additional inter-urban road capacity and nothing at all in urban areas *themselves. There* is an increasing possibility that the oil to fuel this traffic flow will become much more expensive and may not be available in sufficient quantity.

The defence of our *national* interests goes beyond sending forces to the Gulf. In the last resort *it* means ensuring that our industry and commerce are able to survive an oil crisis.

In *this context the* railway would acquire a strategic role and it would be sensible to *invest in electrification and* retain unique railway land assets in operational use. *Profit-maximising private owners* would be unlikely to adopt such a view. In a situation of *scarcity they would* raise prices and the lead times for expanding railway capacity are so great that enormous damage could be inflicted on the economy meanwhile.

You are right to suggest that the property assets of the railway would be of great interest to the potential investor. In the case of the privatised bus industries many fortunes were made by selling bus stations and dumping the passengers and buses on to the streets. Taking unique assets out of public transport use may close down the opportunity of using them again, for example a railway *corridor* through a city centre. The fact that electric railways or rapid transport *systems* are the *only means* yet in prospect of coping with city centre access in an efficient, *non-oil-based, non-polluting* manner, should cause us to pause before letting short-term *property speculators loose on* railway assets.

Almost nobody would dispute *the need to* make BR more customer sensitive and efficient. If, as you argue, polit*ical interference and lack of* freedom are the real obstacles to efficiency, and I believe you are right, *these could be* removed very quickly by converting BR into a company *along the lines of BP before its* shares were sold off.

The new BR could find its *own board members*, raise money in the market and might be encouraged to sell *shares to the staff* and to users who could enjoy travel discounts by way of dividend. A *proper* regulatory body, along the lines of Oftel, could be charged with ensuring consistency between social obligations, public subsidy, quality standards and fares and could begin to develop a regulatory framework within which an efficient railway might develop to meet a range of the country's potential transport requirements.

The Clapham inquiry drew attention to the effect of continual managerial reorganisations and uncertainty on morale and performance within BR. A long, lingering privatisation process would *perpetuate this with the likeli*hood of detrimental effects on safety and quality. A quick, *bold separation of BR from* government which would allow the company freedom to develop would probably bring the benefits sought by yourself and railway users very much *sooner*.

W.P. Bradshaw,
Centre for Socio-Legal Studies,
Wolfson College,
University of Oxford

From Mr David C. Morris.

Sir, The conclusion reached in your editorial comment hardly seems justified by the *arguments*.

There is unlikely to be a time in the foreseeable future *when all BR's sectors are oper*ating profitably, and anyone forecasting 9-10 years ahead is *as good as saying never*. Can we afford another 10 years inefficiency? A programmed break-up is really the most practicable approach.

As and when a sector becomes profitable, such as Inter-City or Railfreight, why not sell it? Management time and resources can then be concentrated on the remaining, difficult sectors. Even these could be sold with "sweeteners" to the owners, as and when specific targets are met, and taxpayers would welcome a definite "end date" on their pockets.

Different owners for different services would bring the required competition to improve services and an end to the misery customers have to suffer.

Ultimately BR would become *a landlord of the property and* tracks and able to continue commercial developments with *the private sector. Stations* could be leased to operators and signalling etc, put out to tender. A break-up sale of BR could attract a lot of votes.

We need a Shatalin not a Ryzhkov solution.

David C. Morris,
Flat 3,
9 Lewes Crescent,
Brighton, Sussex

FOREIGN AFFAIRS

West caught in its own noose

Edward Mortimer considers the options open to President Bush

Whoever else complains, we at the FT should not. The advice this newspaper offered to the world, in its leading article on August 3, has been followed to the letter. (Coincidence, I presume. Less notice, alas, was taken *of* our leader on July 23, "Hands off Kuwait", which suggested a joint statement by *the five* permanent members of the UN Security Council making clear to *President* Saddam Hussein that "the world community is united in its determination to confine his ambitions within Iraq's internationally accepted borders".)

For readers who may have been on holiday at the time, let me quickly recap. Iraq's seizure of Kuwait, we said on August 3, was a challenge that could not be ignored if the concept of international order was to have any future. The UN Security Council had to act. Military action would be very costly in human life, and would have incalculable political consequences. But economic sanctions, for once, seemed to have a real chance of success, if only they were applied by the countries through which Iraq exported its oil.

Of these, Saudi Arabia was most problematic, given its general preference for accom*modation rather than* confrontation with other Arab states in general, and its *well-grounded fear of confron*tation with Mr Saddam in particular. It would therefore need *massive military reassurance*, which only the US could provide credibly and quickly.

Some will argue that only a symbolic tripwire of US troops was needed to convince Mr Saddam that any attack on Saudi Arabia would involve him in direct conflict with the US, *and that the present much* larger build-up is a clear demonstration of offensive intent. But *remember the old saw*, familiar in a Nato context, that you need much greater force to reassure a *friend than to deter* an enemy. Moreover, it would have been irresponsible of *President George Bush to put* US troops in a situation where, if deterrence failed, they would *be bound to be overwhelmed. If* an Iraqi offensive was even a possibility, it was necessary to *deploy forces strong enough to* defeat it.

That said, the deployment *clearly does give Mr Bush the* option of ordering a military offensive against Iraq, with or *without a UN mandate*, if he decides that economic sanctions alone are not going to work. And there are many who think he should exercise that option as soon as he has sufficient forces in place.

The Kuwaitis, watching the destruction of their country and knowing that Iraq will make sure the worst effects of sanctions fall on them, are understandably impatient. So, it seems, are the other Gulf rulers, and *President* Hosni Mubarak *of Egypt*, fearing that time and Arab politics will be on Mr *Saddam's* side if the *US* presence in the region is prolonged. And the Israelis, who have powerful friends in Washington, have been arguing the case for "surgical" air strikes from *day one. Some US* commentators even suggest that it would somehow be a defeat for *the US if Iraq withdrew from* Kuwait without a fight, since the chance to destroy Iraq's *chemical and missile capabili*ties, and its presumed nuclear weapons programme, would *then have been lost.*

Perhaps the best hope for a peaceful solution is that Mr *Saddam himself might be per*suaded to share this view, or at least to use it as a smokescreen *to cover his retreat. But there* is so far little evidence that it is shared by Mr Bush or his *advisers. They believe that an* air attack on Iraq would have to involve thousands of sorties *and many US casualties* – *the* "surgery" involved would be that of "an electric chain-saw *for an amputation*" rather than a scalpel, according to Mr Anthony Cordesman, a former Director of Defence Intelligence – and to be followed up by an even more costly ground *offensive. The closer people are* in Washington to military intelligence, the less hawkish they seem to be.

That does not mean Mr Bush is bluffing when he insists that the military option is not ruled out. He has been so definite in his statements that "Iraq will not be permitted to annex Kuwait" that he cannot afford to rule it out. But there is no reason to think it is his preferred option. What he must be hoping is that the threat of it, combined with the sanctions, will be enough to do the trick.

Let us all hope so. For no one should be so foolish as to contemplate the prospect of war with equanimity. This would be a war fought mainly by western forces against the *most heavily armed Arab state.* The West would no doubt win, but at a terrible cost. I do not mean *only the cost* in western casualties. That would be very high, but the cost to Iraq and *Kuwait would be far greater.* In the process of destroying Iraq's "military machine" we should *kill thousands of Iraqis and* Kuwaitis, and destroy much of Iraq's economy as well.

In most of the Arab world, any military action against Iraq now would be seen as the worst in a long series of western imperialist acts of aggression

Could such destruction be justified by the just cause of defending Kuwait against *Iraq's aggression? Even within* the West that issue would be bitterly debated. But in most of *the Arab world, and in the* wider Islamic world, there would be no debate. It would be seen as the latest and worst in a long line of western imperialist aggressions. In every Moslem country westerners would be treated as enemies, and governments which continued to co-operate with the West might not survive.

"It would be a short, hot war but the effects would be felt for many, many years." The person who said that to me last week was the Yemeni ambassador to the UN, Mr Abdalla al-Ashtal – not exactly a detached observer but perhaps nearer than most to being a neutral one, and certainly well-informed.

The trouble with President Bush's "new world order", from Mr al-Ashtal's point of view, is that in it the law *seems* to be made by the great powers, acting through the Security Council. They themselves, *protected by their veto*, can act with impunity (*vide* Grenada, Panama), and there is no appeal against their decisions. He agrees, however, that Iraq is in the wrong and "has to withdraw". It is, he adds, "the interest of all the Arabs that the conflict be resolved, but peacefully", through Iraqi withdrawal, followed by negotiations with Kuwait. That would indeed be in the interest not only of the Arabs but of everyone else, and the object of western policy must be to produce that outcome.

Whether the western forces stayed in the Gulf after Iraq's withdrawal would be largely up to the host countries, who would have to balance their fear of Iraq against their fear of the domestic consequences of keeping western forces in place. Their current instinct, eagerly encouraged by western arms suppliers, is to purchase *large quantities of weapons* in the hope of becoming strong enough to defend themselves when the western forces leave.

That has not worked in the past and there is no reason to *think it would achieve* anything in the future except an even deadlier regional arms race. *A better approach would* be to link the withdrawal of western forces to the negotia*tion of verifiable regional arms* control agreements, to which Israel as well as Iraq would *have to be parties.*

That in turn, of course, raises the question of an Arab-*Israeli settlement*, and therefore will no doubt be dismissed as premature and unrealistic. *Certainly no crude linkage* between Kuwait and the Arab-Israel conflict can be accepted. *But no one can deny that a* "new world order" based on compliance with Security *Council resolutions* would have profound implications for that conflict; and if Iraq does withdraw from Kuwait no one should object to it claiming, to cover its humiliation, that it has broken the Middle Eastern logjam and made possible a solution of the Palestinian problem.

Who knows? It might even turn out to be true.

FINANCIAL TIMES
Tuesday September 18 1990

Iraqi invasion flattens party plans

Peter Norman and Stephen Fidler examine IMF-World Bank issues

THE International Monetary Fund and World Bank were all set for a party this year.

Their 45th annual meetings, which will formally get under way a week hence, were to celebrate the eclipse of command economics in eastern Europe and the triumph of free market ideals.

The Iraqi invasion of Kuwait has changed all that. The meetings, which will be preceded this weekend by gatherings of finance ministers from the Group of Seven countries, the Group of 24 developing nations and the IMF's policy-making Interim Committee, will be overshadowed instead by the likely effect of increased oil prices on the world economy.

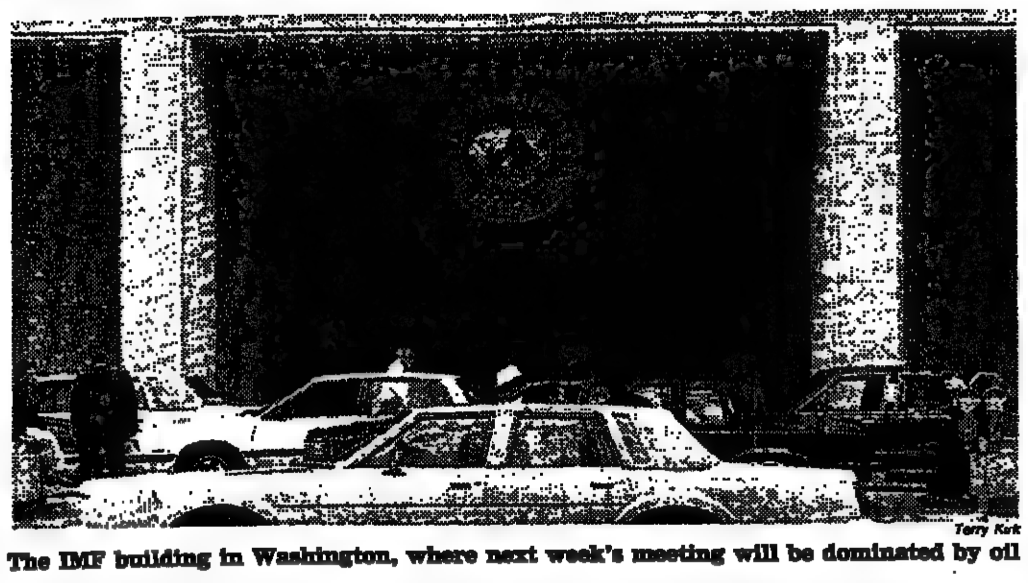
Econometric models, including the IMF's own, suggest that the higher oil prices seen since the invasion will not propel the world into recession. But the crisis in the Gulf has exacerbated dilemmas that were already facing policy makers in the leading industrial countries and added to the troubles of many of the world's developing nations.

The policy co-ordination efforts of the Group of Seven leading industrial nations – the US, Japan, Germany, France, Britain, Italy and Canada – were already running into difficulties as growth slowed in the US, Britain and Canada and continued at a fast rate in Japan and continental Europe.

This divergent economic performance had placed under strain the group's determination to maintain a united front against inflation. With US growth down to an annual 1.2 per cent in the second quarter and signs of economic slowdown and financial fragility multiplying, the Administration has made no secret of its desire for lower interest rates. Monetary officials in Europe are not convinced that the US has sufficiently conquered inflation to be able to ease policy.

Preparatory meetings of officials over the past week suggest that these pressures could lead to tension when the G7 ministers and central bank governors gather in Washington on Saturday.

According to European monetary officials, the position of the other G7 members is broadly to maintain monetary policy at its current level of tightness. "The countries want a steady-as-you-go policy," one official said. This would mean accepting that the oil price increase will entail a once-and-for-all increase in inflation.



Terry Kirk

The IMF building in Washington, where next week's meeting will be dominated by oil

The IMF has calculated that if oil prices settle at $25 a barrel, the industrial countries as a group could experience a ¼ percentage point boost in consumer price inflation beyond current forecast levels this year and a ¾ point increase in 1991.

At present, the international consensus is against a deliberate tightening of policy to counter the inflationary impact of higher oil prices. But further increases in nominal interest rates would not be ruled out in countries such as Japan and Germany where inflationary pressures were strong before the Middle East crisis broke.

Such divergence could disturb currency markets. The dollar's failure to shine as a "safe haven" currency since the beginning of August suggests that it could extend its current softness against other major currencies. Although the world's central bankers appear unperturbed by present currency developments a weak dollar has traditionally been a prescription for trouble.

Such considerations, however, may be too long term for this year's annual meetings. Among officials, much energy will be expended on the immediate problems spawned by Saddam Hussein's invasion of Kuwait in the front-line states.

According to senior World Bank officials, the crisis could cost Jordan up to a quarter of its gross domestic product even before higher oil prices are taken into account. Egypt might lose as much as 5 per cent of GDP and Turkey a ¾ per cent.

Special financial assistance is being arranged under the initiative of the US for those countries directly affected, although the US and other nations are keen to bring such aid under the wing of the IMF and World Bank to prevent waste. There are likely to be calls from finance ministers in many Third World nations for more financial help. The World Bank calculates that only 11 of its borrowing countries will benefit from higher oil prices; the rest will suffer.

A large group of countries ranging from those in the Indian subcontinent round to Turkey and Yugoslavia will lose on remittances. Yugoslavia estimates the cost of the crisis this year alone, through higher oil prices, lost remittances and losses on construction contracts in Iraq will amount to $1.3bn.

The task of rebuilding the stricken economies of eastern Europe will also be harder. Mr Moeen Qureshi, senior World Bank vice-president for operations, estimates that the crisis could cost the east and central European countries $8bn-$10bn a year – and this is on top of a similar extra annual bill to accommodate the Soviet Union's desire to be paid in hard currency for its oil exports to its former satellites.

Most industrialised governments appear to see the need for no special financing facilities at the moment. For those suffering less directly than the front-line states, there is already a special IMF fund (the Compensatory and Contingency Financing facility) and access to resources at the Fund and Bank can be enlarged on a case by case basis.

However, there will be a review of how far the international debt strategy will be blown off course by the events in the Gulf. Efforts will also be made to extend further the principle of debt relief. The immediate focus is on lower middle-income countries, such as Poland, which owe the bulk of their debt to official creditors, rather than banks.

Also under discussion – at least in the corridors – will be the IMF-led study into the Soviet economy, commissioned by the G7 at their economic summit in Houston to establish the criteria for western economic assistance to Moscow. The study is due to be completed by the year's end.

This will be the first IMF-World Bank annual meeting to be attended by a Soviet delegation. The Soviet Union – itself moving towards Fund and Bank membership – is one of only four countries in the world which are not members or which have no applications pending. The other three are Cuba, North Korea and Albania.

Symbolising the eclipse of Communism, Czechoslovakia and Bulgaria will be admitted to the IMF and World Bank by this year's annual meetings. Namibia, Mongolia and Switzerland, the remaining non-members, have applied to join.

Cheney sacks US Air Force chief

By Lionel Barber in Washington

MR Richard Cheney, US Defence Secretary, yesterday sacked General Michael Dugan, Air Force Chief of Staff, for predicting that the US would bomb Baghdad in the event of war against Iraq.

Mr Cheney's action ranks among the most forceful assertions of civilian control over the US military since President Harry Truman sacked General Douglas MacArthur for insubordination in the Korean War.

With full backing from President George Bush, Mr Cheney said he had removed Gen Dugan, 53, a four-star general and member of the Joint Chiefs of Staff, for violating rules banning discussion of military operations.

"Relieving him was not a pleasant task, but I felt it was a necessary one," said Mr Cheney.

Other officials said Gen Dugan was relieved of his duties because his weekend remarks undermined administration efforts to play down military options and stress the use of diplomatic and political pressure against Iraq through the United Nations.

"The issue here is not whether what Gen Dugan said was correct or not," said one senior Pentagon official.

In his interviews with the Washington Post and Los Angeles Times, Gen Dugan said the joint chiefs had concluded that US air power – including a massive bombing campaign that targeted President Saddam Hussein – was the only effective option for removing Iraqi forces from Kuwait, rather than a bloody land-war.

Describing the best military option as "decapitation," Gen Dugan said the target of the aerial strikes would be Baghdad.

"This would not be nibbling at the edges. If I want to hurt you, it would be at home, not out in the woods some place," he said.

Mr Cheney described Gen Dugan as a fine officer with an outstanding record of service, but his comments violated administration policy which was never to disclose details about potential military operations or to talk about targeting individuals.

Gen Dugan's comments come as the debate within the administration begins about possible US military options against Iraq, a point acknowledged by Mr Cheney who said yesterday that the 150,000 forces deployed under Operation Desert Shield "may be engaged in hostilities in the very near future".

Gen Dugan, a 1958 graduate of West Point and a 32-year Air Force veteran who flew combat missions in Vietnam, invited the Washington Post military correspondent to accompany him to Saudi Arabia last week.

His remarks were blunt but similar in tone to General MacArthur's warning in the Korean War that "there is no substitute for victory".

The Joint Chiefs are worried that the American public may not have the patience to sustain a prolonged military campaign which would use incremental rather than overwhelming force – one of the mistakes in Vietnam, according to recent reports in Washington.

Mr Cheney's run-in with Gen Dugan is not his first clash with top military brass. Shortly after taking office last year, he publicly rebuked Gen Dugan's successor – Gen Larry Welch – for negotiating behind the scenes with Congress on the shape of the land-based nuclear deterrent.

EBRD recruits economist

Continued from from Page 1

human rights and the conversion of defence industries into civilian business.

Officials from shareholding countries will meet on October 23 to finalise regulations to ensure that the bank can operate once its creation has been ratified by member states. The bank will be capitalised Ecu10bn ($13bn), of which 30 per cent will be paid in and useable for equity investments. Subscriptions will be spread over five years.

The EBRD will have a wide variety of instruments, including direct lending to governments, local authorities and the private sector. It will be able to lend indirectly through domestic financial intermediaries such as commercial banks. It plans to promote privatisation and support small and medium sized businesses by taking equity stakes and participate in venture capital lending.

Other operations will include joint ventures, underwriting activities, credit enhancements such as guarantees and the provision of advisory services. It will also cooperate closely with existing international financial organisations such as the International Finance Corporation, a World Bank affiliate.

Eastern Europe's polluted environment will be another focus of the EBRD's activities. It has already joined the governments bordering the Baltic Sea in a project to clean it up.

The EBRD believes the rapid development of Spain and Portugal since they became EC members is indicative of what can be achieved if eastern Europe develops its ties with the rest of Europe. Under Mr Attali, it is determined to play a big role in transforming eastern Europe into a growth region.

Wining and dining an Olympic event in the nineties

By Robert Thomson in Tokyo

IN THE final hours of the marathon battle to host the 1996 Olympic Games, the backers of Athens were confident last night that they would win the final vote with a campaign promising "tradition", "soul" – and a three-day cruise around the Greek isles for all athletes and officials.

The decision will be made in Tokyo today by 87 members of the International Olympic Committee, who have been wined, dined and serenaded for several years by the six competing cities: Manchester, Athens, Atlanta, Melbourne, Belgrade and Toronto.

Campaigns have been a mix of lofty sentiment and pork barrelling. For some delegates, the last chance lobbying in Tokyo has included a round of golf with the Australian champion Greg Norman or a concert in the company of the Greek singer Nana Mouskouri.

The Atlanta committee sent delegates a compact disc of the Atlanta Symphony Orchestra and a CD player on which to listen to the music. An Atlanta representative explained that the gifts, designed to show that the city is a place of culture, did not come under a $200 gift limit per IOC member because "we sent them out six or eight months ago."

While the IOC prides itself on maintaining a pristine Olympic spirit, money will have much to do with the final decision. Before voting, delegates will have seen estimates on the potential value of television rights for each venue, and candidates in time zones outside prime US viewing hours are at a distinct disadvantage.

Melbourne supporters point to the declining share of the big US networks in television payments and to the rising percentage of Japanese money, and then to the favourable Tokyo-Melbourne time zone. Still, US networks are expected to pay at least 60 per cent of a television rights total expected to be close to $800m.

The Melbourne bid has cost as much as A$20m ($16m) while Atlanta officials say their "official" campaign budget was $7m, figures which prompted Mr Bobby Charlton, the former soccer star, in Tokyo to represent Manchester, to characterise the cities' presentations as "slick".

Chances are that Manchester will not win, but Athens is no certainty, despite the emphasis on the city as the spiritual centre of the Olympics.

Informed punters suggest that if Athens does not get a hefty share of early votes on sentimental grounds, the city could struggle in later voting rounds against the polished presentations of Atlanta and Melbourne.

Toronto has also produced a fine campaign, but so has Bread Not Circuses, a Canadian group opposing the games on the grounds that they are waste of money.

Each city has had its gimmicks in Tokyo. Manchester boasts that it is the "the city that introduced Mr Rolls to Mr Royce." And Atlanta has brought a 60 member team of track-suited schoolchildren to charm delegates suffering from banquet fatigue.

Oil shortfall pushes prices up

By Richard Gourlay in London

WORLD oil prices rose close to an eight-year high yesterday as traders said underlying shortages of immediately available crude oil were becoming increasingly apparent because of the Gulf crisis.

The November futures price for the benchmark North Sea Brent crude rose $1.50 a barrel to $32.25, while on the New York Mercantile Exchange the November contract for the US benchmark West Texas Intermediate gained nearly a dollar by midday to $32.10.

Traders said further price rises towards $34 a barrel were likely as fears grew that Saudi Arabia would not be able to increase its production enough to compensate for lost output from Iraq and Kuwait.

"Nobody can come up with any reason to explain why the market should not go higher," said one trader.

Crude prices rose initially on rumours that the Soviet Union, the world's largest producer of oil and natural gas, had suffered damage to one of its pipelines carrying crude oil from the Urals.

Soviet officials denied any knowledge of supply problems but traders said the incident underlined the fragile balance between supply and demand. A fundamental tightness in the oil markets was beginning to become more important than reaction to political developments as the main spur for higher prices, traders said.

Saudi Arabia has been increasing its export of crude by running down stocks held in floating storage tankers. However, the new oil Saudi Arabia will pump is likely to be a heavier crude, from which refineries will be able to extract relatively less of the high value gasoline, kerosene and naphtha products that the world most urgently requires.

The immediate shortage was highlighted by a Brent cargo for immediate delivery to a refinery which traded at a $3 premium to the November contract.

The oil markets also began to take on board planned production shutdowns in the North Sea starting in November which will add to the shortage of crude oil. The Brent field is due to be fitted with extra safety valves and the Forties Field is to undergo routine maintenance.

Traders say any disruption in supplies in the US that added to demand for oil now destined for the European market would give a further sharp shock to world oil prices.

Commodities, Page 36

THE LEX COLUMN

Blow-out in the tyre market

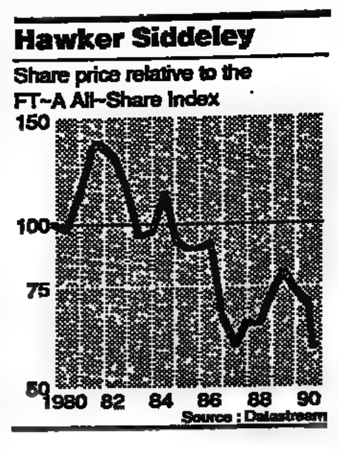
The case for further rationalisation of the European tyre industry is indisputable. Demand is softening, overcapacity is growing and, if the fierce price war is allowed to continue, there will be casualties. The slump in first half profits at Continental AG and Pirelli Tyre on a tiny downturn in demand is a frightening foretaste of what might happen in a serious recession. Their long-term survival might well depend on combining their tyre businesses.

All this has been known for some time. Michelin was never going to get involved because of its size; the heavily indebted Goodyear is still recovering from Sir James Goldsmith's attentions in 1986; and the Japanese can no longer be counted on to pay silly prices for strategic diversifications. Continental has always looked more vulnerable than Pirelli because it did not have a big, friendly majority shareholder.

But while a combination makes industrial and financial sense, there is the little problem of who is to pay for it. Pirelli Tyre's shares have more than halved since last year's disastrous flotation and are now trading at over 20 times next year's earnings. Its disenchanted shareholders will surely not stand any further dilution of an investment trading at less than half net asset value. Pirelli's parent says it has bought 5 per cent of Continental and has the support of a majority of the latter's shareholders. The obvious solution would be for Continental, the bigger of the two, to use its more highly rated paper to acquire Pirelli Tyre; but this does not fit with the latter's stated ambition to control the combined group. Ideally, this should develop into a full contested bid. One senses that it will not.

Hawker Siddeley

Nobody expected the rebirth of Hawker Siddeley to be easy. The question now is whether in the near term the company has the energy or cash to spare from managing the business to carry through the far-reaching overhaul it promised a year ago. The likes of BTR, with its high margins, strong cash flow and sense of direction, can take on the chin the threat of recession in the sectors it trades in, like construction and motors. For Hawker, which is still in the throes of a group-wide strategic review, has spent £220m on acquisitions in the last 18 months and has a capital budget of £80m-odd, the outlook is much less comforting.



Not that the market was awaiting yesterday's interims with enthusiasm, given July's warnings about power station contracting losses in the £27.5m range. What it did not bargain for was the gloom in parts of Hawker's core electrical businesses, which explained the 9 per cent drop in the share price. Small electric motors are selling badly, as construction companies cut back; trading margins are down by a quarter in the group's instruments business, as the US automotive market dries up; and Australia is down across the board.

The difficult thing is to forecast the duration of the period of harsh trading Hawker faces. It is hard to quarrel with the group's decision to hold its dividend unchanged. But the real cash management challenge will be to keep net debt down around the current level of about £150m. That, uncomfortably enough with recession looming, is a five-year-high.

Brent Walker

The sight of Brent Walker's shares rising 3 per cent on news of possible savings on the William Hill deal adds to a sense of financial unreality. The immediate saving is limited to the £50m final payment due to Grand Metropolitan this month. This scarcely seems material to a group with net borrowings of well over £700m, or nearer £1bn including the artificial off-balance sheet vehicle containing William Hill itself.

In relation to the group's market value of £77m, of course, the sum bulks rather larger. The fall in the share price remains one of the London market's mysteries, at least until next week's interim figures. But in its present form, the company smacks of the unfashionable 1980s. Although Mr George Walker is a veteran deal-maker, it was only in 1987 that his borrowings took off, from £36m to £788m two years later. Much of that went on the now deeply unfashionable areas of leisure and property development.

Meanwhile, the company is anxious to avoid the inference that it was sold a pup. Hence the argument is supposedly about William Hill's profits while it still belonged to GrandMet. This year, it seems, profits are perfectly satisfactory. If the market believed that, it would scarcely rate the shares on a yield of 13 per cent and a historic p/e of 1.7.

Warren Buffett

Is North America's leading investor telling the rest of us something reassuring about the US economy and the Gulf Crisis? Since the invasion of Kuwait, airline and travel related shares on both sides of the Atlantic have been trailing badly, what with worries about the oil price, recession and international terrorism. Then Mr Buffett's head popped up yesterday in connection with PS Group, an obscure little company in San Diego, valued by the stock market at only $200m-odd. Mr Buffett, who bought 11 per cent of PS in March and April, is now thinking about doubling his stake.

PS is not actually an airline stock, though it owned California's Pacific Southwest until 1987. But it provides jet fuel services to domestic carriers, leases aircraft and owns the third largest national chain of travel agents in the US. Either Mr Buffett knows lots of things about PS which other investors do not, or he thinks there is good value now in aviation.

IBC

The suspension and planned financial reconstruction of International Business Communications, publisher of the Fleet Street Letter and other stock market tipsheets, looks like one for the textbooks. All the hallmarks are there: the small company with the grandiose title, the chairman's six-figure salary, shareholders' funds of £12m backed by intangible assets of £94m and, above all, the buying back 18 months ago of 40 per cent of the company's equity at 150p a share. Yesterday's price on suspension was 31p. So much for tipsheets.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	25	77	Berlin	F	16	61	Caracas	C	30	86	Faro	S	24	75	Islamabad	F	33	93
Algiers	F	33	93	Biarritz	T	20	68	Casablanca	F	23	75	Florence	F	26	79	Istanbul	F	20	68
Amsterdam	C	15	59	Bombay	F	28	84	Chicago	–	–	–	Frankfurt	S	17	63	Jakarta	F	33	93
Athens	S	26	79	Bordeaux	S	26	79	Cologne	F	15	59	Geneva	S	22	72	Jersey	S	17	64
Bahrain	S	32	91	Boulogne	F	17	63	Copenhagen	S	16	61	Gibraltar	S	27	81	Johannesburg	S	27	81
Bangkok	F	32	91	Brussels	C	15	59	Corfu	S	23	75	Glasgow	F	12	54	Lima	F	18	65
Barcelona	F	27	81	Budapest	F	18	65	Dallas	C	22	73	Helsinki	S	12	56	Lisbon	S	23	75
Beirut	–	–	–	Buenos Aires	F	17	64	Dublin	C	12	55	Hong Kong	F	31	88	London	R	15	59
Belfast	C	12	54	Cairo	S	30	86	Dubrovnik	S	23	75	Innsbruck	S	20	68	Los Angeles	C	18	66
Belgrade	S	16	61	Cape Town	C	13	57	Edinburgh	F	12	55	Inverness	F	13	57	Luxembourg	S	16	61

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	F	23	73	Milan	C	18	66	Nicosia	S	26	79	Salzburg	S	17	64	Tenerife	F	27	81
Madrid	S	22	73	Montreal	F	7	45	Oporto	S	21	70	San Francisco	S	13	57	Tokyo	[illegible]	25	77
Majorca	F	30	86	Moscow	C	12	55	Oslo	C	12	55	Seoul	R	20	68	Toronto	C	5	41
Malaga	F	27	82	Munich	S	18	68	Paris	F	17	64	Singapore	C	31	88	Tunis	[illegible]	30	86
Malta	S	27	81	Nairobi	S	26	79	Peking	F	21	70	Stockholm	F	17	63	Valencia	S	26	79
Manchester	F	12	55	Naples	F	27	81	Prague	S	17	63	Strasbourg	S	20	68	Venice	F	21	70
Manila	C	32	91	Nassau	C	28	80	Reykjavik	S	6	43	Sydney	F	15	59	Vienna	S	17	64
Melbourne	S	13	57	New Delhi	F	28	84	Rhodes	S	26	79	Taipei	F	32	91	Warsaw	F	18	65
Mexico City	F	28	80	New York	S	12	55	Rio de Janeiro	F	22	73	Tangier	F	25	77	Washington	S	12	54
Miami	S	27	81	Nice	C	22	73	Rome	F	25	77	Tel Aviv	S	27	82	Zurich	F	17	64

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Top Japanese banks on credit watch

The last thing Japanese banks want to hear about as they struggle to lift capital ratios is a credit review. But Moody's Investors Service, the US ratings agency, has decided to put three leading Japanese banks on credit watch because of concerns about their profitability and domestic asset base. Robert Thomson looks at what this means for the Long-Term Credit Bank of Japan, the Mitsubishi Bank, and the Tokai Bank. Page 30

Farming discontent

Banner headlines screaming "Lamb Wars" and stories detailing the atrocities inflicted by French farmers on British sheep imports do little to air the real problems underlying the angry protests. The demonstrations are the most visible symptom of a much wider malaise which spreads right across French agriculture. Farmers' viewpoint looks at the problems of cheap meat imports in France, not only from the UK, but also from the currency hungry countries of eastern Europe. Page 36

Dalgety advances 7%

Dalgety, the food and agribusiness group, has put its house in order. It yesterday announced a 7 per cent increase in pre-tax profits to £118.1m ($222m). The Cinderella of the food sector, Dalgety won its increase through cutting annual costs by £3m. Clay Harris examines the results and looks at plans to make acquisitions in the UK and continental Europe. Page 33

Making Munters magic work

A reader of Munters' past annual reports might well be forgiven a private smile at such headings as "the magic of evaporative cooling." But the company with 60 per cent of the world market for desiccant dehumidifiers has a high regard for its own products. This was part of its problem, according to Robin Howe, the man chosen to revive the UK business in 1987. Munters UK had to learn to "love its customers a bit more than its products," he says. Andrew Baxter reports. Page 34

Hungary goes private

The Hungarian Government is finally taking things into its own hands in order to get them off its hands. Up to now privatisation has been led by the managers of the state assets themselves. Nicholas Denton looks at the next stage, in which the State Property Agency plans to sell 20 state-owned enterprises including Ibusz, Hungarhotels and Richter Gedeon. Page 25

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Aachener Muench	735	+	15	Printemps Au	495	+	24
				Union Immob Fr	585	+	21
Falls				**Falls**			
Brown Boveri	770	–	15	Essilor	380.2	–	19.8
Continental AG	265	–	20.2	Gaumont (Soc N)	923	–	28
Douglas Hldgs	821	–	26				
Goldschmidt	667	–	18	Interbail	377	–	31
Metallgesell	516.6	–	30.9	SILIC	672	–	28
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Apple Bancorp	33⅛	+	⅜	Dainippon Ink	588	+	43
IBM	105⅛	+	⅞	Giken Kogyo	1380	+	110
Digital Equip	56⅝	+	¼	Hokuetsu	799	+	60
Falls				**Falls**			
Banc One	22	–	1⅛	Itoman	1160	–	180
Compaq Comp	43⅝	–	½	Nippon Meat	1300	–	110
UAL	97½	–	1½	Uniden	1700	–	140
LONDON (Pence)							
Rises				Davis & Newman	190	–	145
BASS	968	+	10				
Brent Walker	153	+	4	GKN	323	–	5
Glaxo	729	+	15	Gold Greenlees	101	–	17
GRE	184	+	6	Hardy Oil	205	–	7
Nat West	254	+	7	Hawker Siddeley	429	–	44
Scott & New	342	+	8	Inchcape	221	–	8
Yorkshire Radio	168	+	22	Kleinwort Ben	293	–	9
Falls				Lopex	96	–	4
Albright & Wilson	75	–	15	Racal Elec	148	–	7
Bardon	166	–	9	Ransoms	100	–	7
BICC	339	–	11	Tiphook	388	–	16
Brit Aero	553	–	12	Warburg (S.G.)	317	–	8
Cable & Wire	449	–	16				

GM to invest $1bn in Europe

By William Dawkins in Paris

GENERAL Motors' components division, the world's largest supplier of car parts, has strengthened the management of its western European operations and plans to invest more than $1bn in the region over the next five years.

Automotive Components Group (ACG) Europe, the US car maker's parts producer for the region, aims to "double or triple" its turnover over the same period, mainly by selling more to other car makers. It is also expecting the European car parts market to grow by two-thirds by the end of the decade, said Mr Mark McCabe, the group president.

ACG's nine European product divisions will from now on be managed under Mr McCabe as a distinct group, rather than reporting individually to the US as before.

"Our goal in five years is to have 60 per cent of our sales coming from non-GM businesses . . . up from 40 per cent today," he said. Best known for its AC Delco brand, ACG Europe's sales reached $2.4bn in 1989, or 4 per cent of the $60bn-per-year European components market.

The reorganisation, announced yesterday, follows a series of European expansion moves by components suppliers in recent months, including Nippondenso of Japan and Valeo of France. The move comes after two years of study. It shows how General Motors, traditionally one of the world's most vertically integrated car makers, is moving in the same direction as some of its competitors by encouraging its component operations to be more autonomous and sell more outside the group.

"Most of our growth should come from vehicle manufacturers other than GM," said Mr McCabe. Existing customers include Nissan, Toyota and Honda of Japan, and BMW, Mercedes, Rolls Royce, and Volvo among European car makers.

The European components industry is going through a consolidation. The market is gradually becoming divided between a handful of top components suppliers, who continue to buy parts from the second- and third-tier specialist producers that remain.

The market could expand to FFr100bn ($19bn) by the end of the decade, mainly on the back of increased car sales to eastern Europe, higher demand for features like power steering, air conditioning and automatic gears, and tougher European Community rules on exhaust pollution, Mr McCabe predicted. Less vertical integration among other car makers, who would then turn more to outside components suppliers, would also play a part.

To prepare for this, ACG Europe has boosted its investments from the previous average annual rate of $100m to $285m this year, with commitments for more than $1bn over the next five years.

The bulk of it will be used to expand and modernise plant, though ACG Europe was also open to making takeovers. Mr McCabe said that they would approach the more complex European market in a cautious way.

UAW agrees to three-year deal

By Alan Friedman in New York

GENERAL Motors of the US and the United Auto Workers (UAW) union yesterday reached a three-year labour contract that covers 300,000 workers and is likely to set the auto industry standard for Ford and Chrysler.

The accord was reached in weekend talks that broke a union deadline for strike action of last Friday. It gives workers a 3 per cent rise (lower than the rate of inflation) in basic wages in the first year, plus lump sum payments of 3 per cent for each of the two other years.

The deal, details of which are to be unveiled today, includes increased job security provisions. Mr Robert Stempel, GM chairman, said yesterday the new contract "recognises the job security concerns of our employees." The UAW has made this a higher priority than wage increases.

The Detroit News reported that the contract requires GM hire one worker for every two who quit, retire or die.

There had been speculation that GM would push hard to remove or alter this one-for-two clause, that it would seek to cut thousands of hourly jobs and try to close up to four assembly plants so as to compete better with the Japanese.

Mr Stempel said the contract would "provide the basis for a new level of trust between General Motors and its employees", as both work together to try to improve market share and product quality. The contract is likely to be applied to another 150,000 UAW workers with other US auto manufacturers.

UAW leaders are to meet in Detroit today to brief regional union representatives, who will take the deal back to the rank and file for ratification.

The need to avoid a strike and reach a compromise has been underlined by falling profits and by a decline in GM's market share from 46 per cent a decade ago to 35 per cent last year.

After 41 straight hours of negotiations at General Motor's Detroit headquarters, Mr Owen Bieber, president of the United Auto Workers, announces early yesterday that the US car group and his union have settled upon a tentative contract. The agreement covers 300,000 GM employees in 29 states.

Pressure on Ford Canada

By Bernard Simon in Toronto

THE settlement between the United Auto Workers and General Motors in the US will increase pressure for a settlement on 13,000 striking workers at Ford Motor's Canadian subsidiary.

The strike was called last Saturday after a breakdown in contract negotiations between Ford and the Canadian Auto Workers' union, which broke with the UAW in 1985. Ford expects to start closing US facilities towards the end of next week if the Canadian strike is not settled. The stoppage has shut nine plants in Canada, including the only sources of certain engines and parts for Ford's US assembly lines. The CAW has rejected Ford's first contract offer.

The company is expected to make another proposal this week.

US losses push Hawker Siddeley profit down 28%

By Charles Leadbeater in London

THE GLOOM spreading through the UK industrial sector deepened yesterday after Hawker Siddeley, the diversified engineering group, reported a 28 per cent fall in pre-tax profits for the first half of the year.

The decline from £93.2m last year, to £66.6m ($125m) in the six months to the end of June, was mainly due to losses of £27.5m at Hawker Siddeley's power contracting division in the US.

However, Dr Alan Watkins, the group's chief executive, warned that falling demand and intensifying competition would erode margins in several businesses during the remainder of the year.

Several analysts yesterday cut their forecasts for a full-year result of between £165m and £170m. Last year the group turned in pre-tax profits of £202m. Hawker Siddeley's shares fell 44p to 429p on announcement of the interim result.

The deteriorating trading environment will put the company under increasing pressure as it begins a wide-ranging restructuring of its activities. In November, the company's board will consider plans to streamline activities over the next 18 months to two years.

However, the decline in demand is already forcing the company to quicken the pace of restructuring. Dr Watkins said that costs would be cut through redundancies and rationalising production between the group's factories. By the end of the financial year, 1,000 jobs are expected to have been shed and two or three factories closed.

The group is being hit by a downturn in many of its lighter industrial businesses, such as electric motors and small diesel engines. These are dependent on the construction, consumer goods and automotive industries. Hawker Siddeley is particularly exposed in the UK, the US and Australia – where growth is slowing down. Other areas accounted for only 7 per cent of turnover last year. Full-year profits will also be depressed by the strengthening of sterling against the dollar.

However, Dr Watkins said many of the heavier businesses, such as rail manufacturing and power generation equipment were holding up well.

Trading profit rose about 10 per cent to £98.8m, on an increase in turnover from £981m last year to £1.1bn.

Earnings per share fell 8.8p to 19.1p and the interim divided was unchanged at 10p.

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Christies warns on second-half profits

By Andrew Hill in London

MORE SELECTIVE buying of Impressionist, modern and contemporary art held back earnings growth at Christies International in the first half of this year.

Lord Carrington, chairman of the auction house, warned that second-half profits would not beat last year's record.

The group made profits of £40.1m ($75.3m) before tax in the six months to June 30. That was 17 per cent higher than the £34.4m made in the equivalent period last year, but the pre-tax figure was boosted by £4.11m interest receivable, more than double the 1989 figure of £1.97m. Christies attributed the increase in interest payments to careful management of its cash balances.

Earnings per share rose 15 per cent to 13.59p (11.81p). In March, Christies reported a 58 per cent increase in profits for last year. It had been a record-breaking 12 months for both Christies and its rival Sotheby's Holdings.

"We are not going to escape totally unscathed from what is happening in the world," said Lord Carrington yesterday. But he added that dealers still had a lot of cash following the market's exceptional buoyancy last year and vendors were still bringing items in for auction.

Christies' sales in the first half increased from £607m to £722m, of which 43 per cent came from sales of Impressionist works, including the record $82.5m paid for Vincent Van Gogh's Portrait of Dr Gachet in May. Group turnover reached £105m, compared to £90m last year. The group declared an interim dividend of 2.3p (2p).

The equity market has already taken account of perceived slackness in the art market: since June, Christies' share price has slipped from a peak of 409p to yesterday's closing price of 257p, down 1p on the day.

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German bearings group boosts US presence in $131m deal

By Katharine Campbell in Frankfurt

FAG Kugelfischer, the West German bearing and industrial systems manufacturer, is expanding its North American activities with the acquisition of Barden, a Connecticut-based company which specialises in precision ball bearings.

The West German group is paying $66.50 per share or about $131.2m on a fully-diluted basis. The offer is at a substantial premium to the US company's closing share price last Friday of $32.50 a share.

Mr Stanly Noss, president of Barden, said that while his is a relatively small company in the US market, it produces some of the best quality precision bearings.

"The FAG association will give us the resources we need to compete in the global bearings marketplace, while FAG gains a significant manufacturing presence in the US," Mr Noss added.

Mr Walter Schwarz, the president of FAG Bearings, which is also based in Connecticut, said: "The transaction will provide a means to develop additional domestic capacity to replace products which FAG currently imports."

The West German company's activities in the US have been centred around larger industrial bearings, while it lacks exposure to the precision market.

Barden's forté, meanwhile, includes high-speed bearings for machine tools, aircraft instruments, jet engines and X-ray technology.

Barden will continue to operate as a distinct company, retaining its structure and corporate identity.

The US group's sales last year – mainly in its home market but extending elsewhere including the UK – amounted to $98m, with net profits of $5.8m.

Mr Noss estimated that sales in 1990 would be about $105m.

Kugelfischer group sales amounted to $2.8bn last year, of which $270m stemmed from North America.

Mr Carl Norden, whose family helped to found Barden, and other relatives who together own about 31 per cent of the shares, have agreed to sell their holding to the West Germans for $66.50 per share.

The tender offer is scheduled to close in October and is subject to regulatory approval, according to Barden.

FAG is being advised in the transaction by Paine Webber. Barden stock is sold over-the-counter in the US.

Dan-Air parent to sell cleaning unit

By Charles Leadbeater in London

DAVIES & NEWMAN Holdings, the parent of Dan-Air, the troubled charter airline, yesterday put its aircraft maintenance business up for sale in an effort to halt the slide in its finances.

The sale of the maintenance activities, which had a turnover of about £50m ($94m) last year, has been forced upon Davies & Newman because long-running talks aimed at finding a partner for Dan-Air have yet to bear fruit.

Davies & Newman's shares fell by about a third to close at 190p, in extremely thin trading.

Baring Brothers, the company's merchant bankers, said yesterday that the sale of the maintenance division had attracted interest from airlines and engineering companies in the UK and the US.

It is thought the sale of the business – which employs 1,600 people at Gatwick and Manchester airports – and a special site at Lasham in Hampshire could raise about £25m. The main attraction is D&N's modern facilities at Gatwick, where opportunities for new entrants are limited. The maintenance activities at Machester should also benefit from the forecast growth in traffic at regional airports.

Aircraft overhaul is becoming an increasingly popular business, both for airlines keen to expand their own maintenance activities and engineering groups with specialist divisions.

Rising worldwide demand for air travel is expected to offer companies with aircraft maintenance activities some insulation against slowing growth in consumer, automotive and construction markets.

The maintenance industry is becoming increasingly internationalised as airlines demand similar standards throughout the world.

The sale reflects the parlous state of Dan-Air, the UK's second-largest charter airline, which is thought to be making heavy losses. It has been squeezed between falling demand for charter holidays and rising fuel costs.

The airline's poor performance forced Davies & Newman into a pre-tax loss of £3.34m last year, against a profit of £9.92m in 1988. The group's interim results next month are expected to disclose that the airline business has suffered a further deterioration this year.

It is thought that American Airlines and Delta, the US carriers, and All Nippon Airways of Japan are among the contenders to buy a stake in Dan-Air.

INTERNATIONAL COMPANIES AND FINANCE

Koor Industries reports first-half losses of Shk71m

By Hugh Carnegy in Jerusalem

KOOR Industries, the trade union-owned Israeli group burdened by debts, yesterday reported inflation-adjusted first-half losses of Shk71m ($33m), a sharp improvement on the same period in 1989, but enough to push shareholders' equity Shk18m into the red, the first time Koor has shown a capital deficit.

Koor said it had made significant advances in the first six months of the year, showing an operating profit of Shk108m, up by more than four times.

Net losses in the previous period were Shk188m. Sales, at Shk2.4m, were down 3.5 per cent, reflecting continued contraction by the group. But productivity rose, with sales per employee rising 5.5 per cent.

However, the group continued to be dragged down by loss-making units and the lack of a long-delayed restructuring of its $1.2bn debts. Tadiran, Koor's biggest subsidiary, accounted for Shk54m of the group net loss, and operating losses of Shk24m at Soltam prevented stronger results at the operating level.

Koor, which has not made any repayments on group debts since the end of last year, is dependent on a complex restructuring deal for its survival. This still has to be agreed between its Israeli and foreign creditors, its trade union owners and the Israeli Government. The deal, being formed for months, is meant to reduce Koor's debts to $650m.

"Koor is on the line to recovery – except for the restructuring agreement," Mr Gaon said last night. He cited an emerging upturn in the Israeli food and construction sectors, on the back of large-scale immigration by Soviet Jews, as an additional source of optimism.

But the negative equity capital position – compared with a positive Shk505m a year ago – and an excess of current liabilities over assets of Shk554m illustrates Koor's predicament.

HLF pre-tax profits slip 1.3% to S$25.5m

By Joyce Quek in Singapore

HONG Leong Finance (HLF), Singapore's largest finance company, saw profits dip at the halfway mark, following a decline at its subsidiary Singapore Finance and additional provisions for doubtful debts.

HLF and Singapore Finance provided a further S$4.8m (US$2.7m) and S$2.2m for doubtful debts respectively.

HLF's group income rose 27 per cent to S$99.8m for the six months to June, but it saw group pre-tax profits slip 1.3 per cent to S$25.5m.

A doubling of investment and other income to S$1.79m did not prevent attributable profits from falling 6.4 per cent to S$15.3m.

Singapore Finance's income leapt 34.5 per cent but pre-tax profits fell 7 per cent to S$6.7m.

Hong Leong believes the outlook in the second half may be affected by the Gulf crisis, but its directors are confident that the year's results will be satisfactory.

SGS proposes to split all stock

SOCIETE Générale de Surveillance Holding (SGS), the Swiss inspection services group, said its board would propose a split of all its shares and dividend rights certificates aimed at improving their liquidity, AP-DJ reports.

The company said the decision was taken in connection with its previously announced capital restructuring plan.

SGS said its first-half net profit increased 15 per cent over the same period a year ago.

Changes in the air for Munters

Andrew Baxter on the marketing plans of a top Swedish company

Volvo, Saab-Scania, Electrolux, Ericsson, Munters... Munters? The name seems out of place in such exalted company, and is unlikely to ring many bells outside Sweden – except, perhaps, for students of the world dehumidification equipment market.

While its larger compatriots carve up world fields with their megadeals, Munters ploughs a narrower furrow.

A classic example of the Scandinavian fascination for business "niches," Munters is an environmental technology concern with 60 per cent of the world market for desiccant dehumidifiers used by a variety of industries.

It holds its products in high regard: a glance through a recent annual report reveals such enticing sub-headings as "The magic of evaporative cooling." But its market dominance has brought deep-seated problems. Now Asea, Swedish partner in the Asea Brown Boveri engineering group and the new owner of Munters, wants them sorted out.

Robin Howe: playing a key role in reviving the company

The person chosen for a key role in reviving Munters is Mr Robin Howe, who since 1987 has been managing director of Munters in the UK. Mr Howe, a 42-year-old Briton, was earlier this year elected group vice president of the parent company, with worldwide responsibility for its dehumidification equipment business. This accounts for just over half the sales total, which reached SKr1.14bn ($197m) last year.

Mr Howe was no novice to Swedish industry when he joined Munters, having spent seven years in Sweden working for Hugin, the cash register company which was taken over by Electrolux in 1980 (and sold three years later) and then for a specialist subsidiary which was bought by Ericsson in 1981.

Mr Howe ran the unit, which made retail automation systems for the oil industry, from 1982 to 1986 before returning home. Mr Howe admires the way the two big Swedish companies have changed over the years.

"I used to think Electrolux and Ericsson were as different as companies could be," he said. "Electrolux was marketing-led, and Ericsson had its strong base in engineering, but both have succeeded in moving into the middle ground."

On a smaller scale, he now has to help effect a similar transformation of Munters' dehumidification business. Mr Howe is disarmingly frank about the company he joined in 1987: "It was like going back into medieval times. One had to learn to sell by the kilogram and not the byte." He was distressed, too, by the complacency of a company protected by a slew of patents, and decided that Munters UK had to learn to "love its customers a bit more than its products."

It was, perhaps, natural for Munters to be so product-oriented, given that its founder, Mr Carl Munters, was also an inventor, whose discoveries formed the basis for many of the company's products. Mr Munters died last year, aged 92.

By the time Mr Howe joined Munters UK it was suffering from the problems of success. After enjoying strong growth in the 1970s and early 1980s, the company began to take its technology-led market superiority and customers for granted. Local management had also developed their product line in isolation from the parent company.

It was not a happy time to start with the company. A new 70,000 sq ft factory in Huntingdon had been built on the mistaken assumption that growth in the industrial market would be sharp, but half the staff had to be laid off within a month of the official opening – carried out by Mr Cecil Parkinson, then Trade and Industry Secretary, in September 1987.

To address the problems, Mr Howe introduced strict directional marketing, focusing on companies in key industries backed by a vigorous new product programme.

Productivity at the company's Huntingdon plant and product quality improved, while joint research & development programmes with the parent company were encouraged to end the UK's isolation. Three years later, the return on capital at Munters UK has returned to mid-1980s levels and it has become a linchpin in the parent company's pre-1992 planning. Mr Howe described the company as "profitable and expanding."

In contrast, the rest of Munters' worldwide dehumidification business is "profitable but stagnant." Munters group pre-tax profits after financial items plunged to SKr16m last year from SKr65.7m in 1988, but is expected to recover to between SKr30m and SKr40m this year.

Last month saw the start of a programme to adopt the same approach worldwide, with the UK as a role model. The move reflects the influence of Asea, which acquired Munters via its SKr4.3bn takeover of Incentive, the Swedish holding company, this year. Since then, said Mr Howe, ABB had asked Incentive "to inquire of themselves why they exist."

AHP in joint venture for experimental AIDS vaccine

AMERICAN Home Products, the large US conglomerate which has been concentrating increasingly on its pharmaceuticals operations, yesterday announced it was moving into the anti-AIDS field, writes Nikki Tait in New York. It has entered an agreement with MicroGeneSys, a private company based in Connecticut.

This represents AHP's first direct involvement with a product aimed at combating Acquired Immune Deficiency Syndrome, although the company said yesterday that some of its research was directed to this end.

AHP has agreed to develop jointly MicroGeneSys' anti-AIDS product, VaxSyn HIV-1. This is an experimental vaccine which is undergoing multi-centre clinical trials, both as a therapeutic for AIDS patients and as a vaccine to prevent the development of AIDS. The agreement provides for MicroGeneSys to receive benchmark payments from AHP once clinical and regulatory milestones are reached.

AHP has also taken a minority stake in Microgenesys, but declined to specify the size of the stake or to discuss further details of the agreement.

According to Mr Viren Mehta, analyst at Mehta & Islay, MicroGeneSys was one of the first companies to start efforts to produce an anti-AIDS vaccine and is "in the pack leading the development of the product."

Analysts believe the development of a viable vaccine is three to five years away.

Strafor merger with Facom will lead to diversification

By George Graham in Paris

STRAFOR, the French office furniture company, is to merge with Facom, the leading European hand tool manufacturer in which it bought a 16.5 per cent in May.

The operation, which will take place through the absorption of Facom by Financière Strafor, the Strafor holding company, will create a group with a market capitalisation of FFr5bn ($960m) at current market prices. Group net profits are expected to reach about FFr400m in 1990 on sales of FFr10bn.

It will represent a major diversification for Strafor, which over the past 18 months has embarked on a heavy acquisitions programme with the aim of reducing its dependence on office furniture.

It has continued to expand in this sector, with acquisitions such as Bruno Danese, the Italian desk accessory company; Artifort, the Dutch chair maker; and Gordon Russell, the leading UK manufacturer. However, agreements with its partner Steelcase, the US office furniture company, restrict its activities in the sector to Europe.

Facom, too, has been expanding, and earlier this year bought Britool, the hand tools division of James Neill Holdings, for £12m ($22.7m). Its family shareholders, however, had been seeking to disengage from the business, and Facom had come into the sights of groups such as Stanley, Sandvik and, in particular, Bahco, which took a 6.5 per cent stake.

Strafor bought 16.5 per cent of Facom in May, paying the family shareholders about FFr500m for the stake.

The merger operation, on which Strafor and Facom have been advised by Crédit Commercial de France, will involve first spinning off the industrial activities of Facom into a new subsidiary and then absorbing the Facom holding company into Financière Strafor through the exchange of 13 Strafor shares for 10 Facom. The parent company will then be renamed Strafor-Facom.

This will require a two-thirds majority at extraordinary shareholders' meetings, likely to take place at the end of November.

Facom's management will remain unchanged, and Mr Henri Lachmann, chairman of Strafor, will head the new group.

Rossignol set for golf purchase

By George Graham

ROSSIGNOL, the world's largest ski maker, is on the point of completing its promised diversification outside its main winter sports sector with the purchase of a US golf club manufacturer.

The French group has signed a letter of intent to acquire 100 per cent of Roger Cleveland Golf Company, a small maker of woods, irons and sand wedges which is based near Los Angeles.

Cleveland, which has sales of about $10m a year, claims that more than a third of US Professional Golf Association players have at least one Cleveland club in their bags.

Rossignol, like its French counterpart Salomon, has been handicapped during two mild winters by its dependence on snow sports. It announced in July that it expected a net loss of FFr85m in the 12 months ending next March, following a loss of FFr9.3m in 1989-90.

Downhill skis, Rossignol's main product line, accounted for 60 per cent of turnover last year, with ski boots (sold under the Lange name), cross-country skis and ski sticks making up a further 20 per cent of sales.

Tennis rackets account for only 7 per cent of sales.

Degussa buys pigments unit

DEGUSSA, the chemicals and metals group based in Frankfurt, has acquired a UK pigments manufacturing unit of state-controlled Rhône-Poulenc of France. The financial arrangements are not disclosed.

Degussa purchased the Manox Division of Manchem, which in turn is a subsidiary of Rhône-Poulenc's RTZ Chemicals subsidiary.

Manox produces iron blue pigments and potassium ferrocyanide. The Manchester-based concern employs 70 and had £6m ($11m) of sales last year.

The iron blue pigments will complement Degussa's own.

Crédit du Nord first-half profits advance by 50%

CREDIT du Nord, the commercial banking subsidiary of France's Paribas group, has announced a 50 per cent rise in first-half net profits to FFr88.7m ($16.9m), excluding minorities, writes George Graham.

The bank said the increase reflected both capital gains on asset sales and a satisfactory development of its business volume. For the full year, it said it expected a significant increase over 1989's FFr103m.

Total outstanding loans at the end of June stood at FFr74.7bn, 10 per cent higher than a year earlier, while customer deposits stood at FFr54.8bn, up 12.5 per cent.

Gross operating income rose by 6 per cent from the first half of 1989 to FFr623m, and subsidiaries contributed to profits, with Banque Rhône-Alpes up at FFr15m and Banque Tarneaud stable at FFr10.3m.

Crédit du Nord increased its net bad debt provisions by 12 per cent to FFr439m in the first half. It said this reflected normal provisioning for commercial loans, since its sovereign debt risks, like those of its parent Paribas, are now insured.

Usinor in takeover of Italian and US plants

By William Dawkins in Paris

USINOR Sacilor, the world's second largest steelmaker, yesterday announced the completion of two takeovers, of Edgcomb, one of the biggest independent steel merchants in the US, and Meteco, a small Italian distributor of special steels.

Both purchases form part of Usinor Sacilor's strategy of adding to its downstream marketing and distribution activities to move closer to the final steel user.

This trend, also being followed by other big European steelmakers, has alarmed independent steel producers, which fear that their bigger competitors are buying some of their most valuable customers.

Edgcomb, which is Usinor Sacilor's eighth US acquisition in two years, reported sales of $596m in 1989, on which it lost $12.5m. Of total sales, 45 per cent are in flat products such as steel plate, 25 per cent in stainless steel – in which sector the French group recently bought the second largest producer in the US – with the remaining 30 per cent split between long products such as bar and wire, and aluminium.

Meteco has a L75bn ($63m) turnover and supplies the Italian car industry from its depot near Turin. It has six other steel distribution centres. In line with its usual practice, Usinor Sacilor is not disclosing the prices of the purchases.

Benetton names its new chief

BENETTON Group, the Italian clothing firm, said that Mr Emilio Fossati, former managing director of publisher Arnoldo Mondadori Editore, will be nominated as the company's managing director, Reuter reports.

Mr Fossati, 53, will assume the position at the end of October. He replaces Mr Aldo Palmeri, who resigned from Benetton earlier this year.

The company said it expected turnover in 1990 to rise to about L2,000bn ($1.71bn) from L1,660bn in 1989.

Hungary looks for new owners

Plans are in train for the sale of state assets, writes Nicholas Denton

The fundamental flaw in the Hungarian economy, say policy-makers, is that there are no real owners. Ultimately the solution is to transfer the bulk of state assets – 90 per cent of the economy – to the private sector.

That will take time: five years, going by government targets. Meanwhile the state must reassert its rights over its own property so it can conduct privatisation as it wishes.

Last week the State Property Agency (SPA), the government body which holds the title to state property and oversees privatisation, took the first step. The agency launched the sale of 20 state-owned enterprises (SOEs) in the first active privatisation programme.

For the first time the method and the goal of the process will be determined by the state. "It is really the owner who has to decide on the future of its own property," Mr Karoly Szabo, deputy director of the SPA, said yesterday.

Most privatisation until now – involving 5 per cent of state property – has been "spontaneous," initiated by SOE managers, who retain the latitude given under earlier reforms in an attempt to build market socialism. It has resulted in dilution of the state stake rather than its diminution.

While spontaneous privatisation will continue, the hope is that controlled privatisation can set the general pattern and alone transfer yearly 5 to 8 per cent of state property to the private sector. The first programme begins with 1 per cent comprising 20 companies, the three most prominent of which are Ibusz, Hungarhotels and Richter Gedeon.

Ibusz, the national travel agency, was the test case of privatisation. In June more than a third of the company was publicly sold and the shares listed on the Budapest and Vienna stock exchanges. The issue was 23 times oversubscribed and the shares currently trade at a 60 per cent premium on the issue price of 4,900 forints, valuing the whole company at $150m.

Hungarhotels, the country's largest hotel chain, has already been sold once. Quintus, a Swedish-Dutch investment group, took a 50 per cent stake for Ft5.7bn ($90m) late last year but the sale was cancelled for technical reasons. Hungarhotels' Ft6bn debt is the motive for its managers' enthusiasm for privatisation.

Richter Gedeon, also known as Kobanya Pharmaceuticals, has ambitions to become the largest pharmaceuticals company in eastern Europe.

Three main means of privatisation will be used: the public offering of shares on stock exchanges; competitive bidding; and employee share ownership programmes (ESOPs). Generally, private placement will be preferred and foreign investment given the largest amount of free rein in the case of manufacturing companies which need technical and management help to fulfil their potential. The lucrative hotel and tourism companies are the most likely candidates for a substantial public offering.

Mr Lajos Csepi, managing director of the SPA, held open the possibility of listings on non-Hungarian exchanges despite criticism by some ministers and MPs of the flotation of Ibusz in Vienna.

It would be a "business decision," he said, to be taken by the SPA and not by the Government. But he admitted that "probably we will not be brave enough to go to a foreign stock exchange."

The Budapest Stock Exchange, opened in June, is too new to cope with many new issues and ESOPs will be limited to between 5 and 15 per cent of the shares. So competitive tenders, open or by invitation, are likely to predominate in the first wave of sales.

The SPA, like other institutions, will find it difficult to manage the prospective volume of transactions alone. The agency's answer is to privatise the privatisation; it, as the owner, has set the guidelines but invited tenders for advisers on the details of individual sales.

Bids are expected by October and the choice of the winner, which will lead-manage the privatisation, will be made in November.

Another reason for hiring consultants is to put as much distance as possible between politics and privatisation. Objective outsiders, it is hoped, will be less vulnerable targets of criticism. "We would like to separate privatisation and politics but in the end you can never do it entirely," Mr Szabo said.

Whatever problems are encountered in the first privatisation programme, those in the succeeding ones will be greater. The 20 companies in the first wave were selected for the willingness of management to co-operate, their readiness for privatisation and their attractiveness to investors.

The next batch, probably to be gathered together in December, will be much more problematic. It will include many SOEs which need thorough restructuring, which means lay-offs at a time of rising unemployment. Well-known large industrial companies such as Ikarus, the bus manufacturer, are worth much less than the public thinks and so complaints about cheap sales will be more intense.

THE TOP COMPANIES DUE FOR PRIVATISATION

Company	Sector	Foreign inv. limit (%)	Equity ($m)	Assets ($m)	Turnover ($m)	Pre-tax profit ($m)
Ibusz	Tourism	None	24	38	157	19
Richter Gedeon	Drugs	33	139	291	290	16
Hungarhotels	Hotels	50	55	182	125	15
MEH Trust	Scrap recycling	None	34	63	148	14
Pannonia	Hotels	30	48	153	87	15
Danubius	Hotels	50	41	111	65	9
Pannonplast	Plastics	None	37	69	81	7
Centrum Dept. Stores	Retail	30	45	57	310	7
20 other companies			597	1130	1431	92

1989 results converted at Ft60=$1

Snecma doubles earnings but warns on future

By William Dawkins in Paris

SNECMA, the French state-owned maker of aircraft engines, yesterday reported more than doubled net profits for the first half of the year but warned that the outlook for military sales remained poor.

Net profits rose to FFr61m ($11.6m) in the six months to June, from FFr25m in the first half of last year, on sales up by 16 per cent to FFr63.bn.

The group made its first profit for three years last year, thanks to the strength of the civil aircraft industry, where its best selling product is the CFM56-5C engine, made with General Electric of the US for aircraft manufacturers Airbus Industrie and Boeing.

Snecma has raised its exposure to non-military markets in recent years, so that engines for civil aircraft now take 75 per cent of its order book, with the rest devoted to defence customers, the exact reverse of the situation 10 years ago.

The order book currently stands at just over FFr35bn, representing about three years' production.

However, the group warned that the outlook for the rest of the year was marked "by an unfavourable economic environment for military sales." It also warned that results would be affected by the fall in the value of the dollar, in which 60 per cent of Snecma's sales are made.

INTERNATIONAL COMPANIES AND FINANCE

Troubles at Nigerian bank spark concerns over policy

By William Keeling in Lagos

THE Nigerian monetary authorities are increasingly concerned at problems posed by the troubled National Bank of Nigeria (NBN), the oldest indigenous bank in the country.

It is understood that a group of banks formed to assist in the handling of NBN has warned of a possible run on the banking system in the event of NBN being declared bankrupt. It has advised the authorities that the failure of NBN would bring into question federal government policy on banking.

NBN is owned through Odua Investment Company by the three Nigerian state governments of Ogun, Oyo and Ondo. It has been expelled from the country's banking clearing house and from the foreign exchange market.

It is one of five Nigerian banks to have a branch in London. Under international agreements between central banks, the London branch is the responsibility of the Nigerian Central Bank.

Analysts believe that the branch may hold additional debts which are as yet undisclosed. It is not known whether correspondent banks, which include Midland and National Westminster, still maintain lines of credit with NBN.

The advisory group of banks is believed to have warned that although most NBN's liabilities are immediately due, in the short term little can be realised from the bank's assets. Liquid assets are less than total deposits and the liquidity ratio is far below the statutory minimum of 30 per cent for this class of bank.

In 1989 NBN declared a profit before exceptional items of Naira 12m (US$1.5m). The loss on exceptional items, however, was N217m.

An analysis of NBN's deposits in June indicated that more than 80 per cent were insured by the Nigeria Deposit Insurance Corporation (NDIC). Analysts estimate that the liability of NDIC – an organisation created two years ago to insure bank deposits of up to N50,000 – could be as high as N1.1bn in the event of NBN's bankruptcy.

The group estimates that NBN requires N1bn in emergency funding. The new funds are needed to cover a NDIC facility under which an amount of N450m is due, in addition to an overdraft at the central bank of N100m and an anticipated withdrawal of N500m or 60 per cent of total deposits if the bank resumes general business.

This is more than the total assets of NDIC which were given in its 1989 annual report as N463m. The total loss to NDIC and the Central Bank would be approximately N1.2bn.

The group of banks is believed to recommend that the NDIC facility and Central Bank overdraft should be restructured into an 18-month bridging loan and that a syndicated working capital credit line of N250m should be raised by the banks from the money market based on a guarantee by the NDIC and Central Bank. This would leave the group to raise a N100m bridging facility.

The NDIC has warned that its establishment "signalled a change in government bank support policy. Government is no longer prepared to play a direct role in the financial support of insolvent banks."

The Government will have to take into consideration, however, that although NBN may be the bank in the most critical condition there are others which are similarly strapped. NBN is one of 20 state-owned commercial banks, and in its 1989 annual report NDIC estimated that 64 per cent of the loans and advances of the state-owned banks were uncollectable.

Dominion Mining net leaps 273% to A$34m

By Bruce Jacques in Sydney

DOMINION Mining has stamped itself as one of the emerging giants of Australian gold production with a big rise in earnings against the industry trend in the June year.

Dominion raised net earnings by 273 per cent to A$34.19m (US$28m) from A$9.17m on a 242 per cent rise in revenues to A$234m from A$68.4m.

Dominion has doubled the annual dividend to 4 cents from 2 cents a share on increased capital following last year's hard-fought takeover of the rival Whim Creek group.

The takeover helped to lift annual gold production to 342,695oz from 97,557oz, establishing the group among the top Australian gold producers.

Mr Peter Joseph, chairman, said the company had cash reserves of more than A$65m and had sold forward 770,000oz of gold at an average price of more than A$600 an oz.

"While the result was satisfactory, given the tough and volatile conditions in the industry, significant challenges for the company lie ahead," Mr Joseph said.

Embattled Sappi in midway decline

By Philip Gawith in Johannesburg

SAPPI, South Africa's largest pulp and paper manufacturer, reported a decline in both turnover and earnings in the six months to the end of August following a series of labour and production difficulties and weaker prices for its products.

Turnover declined 5 per cent to R1.3bn ($506m) from R1.37bn while pre-tax income was 44 per cent down at R182.6m from R326.8m.

Mr Eugene van As, chief executive, said the poor performance was a combination of foreseen and unforeseen circumstances.

Foreseen were the continuing decline in dollar prices for Sappi's products, the strong rand-dollar exchange rate, a high interest bill and weak domestic trading conditions.

On the basis of these factors, Sappi managers had predicted a decline in interim earnings. Production problems, however, considerably aggravated matters, accounting for more than half the drop in earnings. Most damaging were a series of industrial relations problems including strikes at Ngodwana and Enstra which lasted for nine and 11 weeks respectively and severe labour disruptions at two Novobord plants.

Making matters worse were statutory boiler inspections at the Nogodwana and Tugela mills which reduced available export volumes and a temporary restriction in bleached pulp output at Ngodwana while the expanded plant was being refitted.

Better news came in the form of the acquisition of five paper mills in the United Kingdom, currently being consolidated into a single business.

Mr van As said the new UK operations were expected to start contributing to profits next year and thereafter play a major role in the group's future growth. Sappi also stands to benefit from export incentives announced by the Government in April.

Looking ahead, Mr van As said he expected domestic markets to remain depressed, but not to deteriorate further, while no material change was expected in international markets.

Sappi exports 44 per cent of its turnover, so if events in the Gulf were to precipitate a world economic downturn the company would be vulnerable.

Although tight conditions in the second half are expected to see earnings below the 1989 level, management expect them to be significantly better than in the first half.

Earnings per share were 44 per cent lower at 181 cents compared with 323 cents, but the dividend was maintained at 80 cents per share.

ASM takes stake in Malaysian broker

By Lim Siong Hoon in Kuala Lumpur

AMALGAMATED Steel Mills (ASM), one of the largest Malaysian industrial groups, has agreed to buy a stake in Klang Securities, a small stockbroking company. At the same time three other brokerages are seeking listings in the Kuala Lumpur Stock Exchange (KLSE).

The deal, as well as the proposed listings, is among the first signs of a response to official policy changes directed at the brokerage industry.

The changes follow government demands on the KLSE to expand its business and attract new listings, especially from privatised companies.

Under the brokerage reforms, introduced officially last June, a broking company is required to raise its minimum capital share from M$2m to M$20m (US$7.4m) if it is to retain its licence.

The Ministry of Finance previously insisted that all the 53 brokers comply, but later relaxed the capital rule by staggering the capital restructuring and by extending last June's deadline for up to five years.

Only five brokers, three of them bank-owned and one listed on the exchange, meet the rule; most of the rest have under M$10m each.

The government directive means that individuals who own the licences would be forced to take new partners or merge.

The latter option is the least palatable because it entails forfeiting one or more licences, while foreign equity participation is not encouraged by the Government.

This leaves the field open to large companies, banks or public investors.

After its M$12m acquisition, ASM, which reported 1988-89 sales of nearly M$1bn, will own an 80 per cent equity stake in Klang Securities.

The three brokers seeking listings are Kimara, TA Securities and Seremban Securities. They plan to raise up to M$100m through the KLSE.

SPC sell-off on despite Gulf tension

By Joyce Quek in Singapore

SINGAPORE Petroleum Company (SPC) is the first of the country's state-owned companies to seek a listing since the Gulf crisis erupted.

The third state-controlled group to be floated this year will raise S$37.5m (US$21.4m) from its public offer of 25 per cent of its share capital, opening today and closing on October 3.

Of the 80m 50 cent shares being offered at S$1.25, 30m will be new shares. Fifty million will be from those held by Singapore Factory Development, a subsidiary of the DBS Bank group which controls 62.7 per cent of SPC.

The other shareholders are Oceanic Petroleum (Asia) with 31.3 per cent and C. Itoh, the Japanese trading giant, with 6 per cent. The net proceeds of S$35.9m will be used partly to finance the construction of a S$46m oil storage terminal at Pulau Sebarok, an island.

The SPC group, Singapore's only domestic oil giant, comprises nine companies engaging in oil refining, marketing and distribution, trading of crude and petroleum products, third party processing and tanker transportation.

● Malaysia's giant telecommunications company, Syarikat Telekom Malaysia, signed an agreement with 24 financial institutions to underwrite its public share issue in November. Arab-Malaysian Merchant Bank, the country's largest merchant bank and lead manager of the deal, expects STM shares to command a strong premium.

هكذا من الاصل

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FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday September 17, 1990. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	99.25	52.1944	33.5021	38.0998
Albania	(Lek)	10.2222	5.3716	3.4505	3.9240
Algeria	(Dinar)	17.3964	9.1415	5.8722	6.6780
Andorra	(Fr Fr)	9.9275	5.2167	3.3510	3.8109
	(Sp Peseta)	186.60	98.0557	62.9873	71.6314
Angola	(Kwanza)	57.373u	29.9180	19.3664	22.0241
Antigua	(E Carr $)	5.15	2.7062	1.7383	1.9769
Argentina	(Austral)	11185.95	5878.0609	3775.8481	4294.0307
Aruba	(Florin)	3.4144	1.7942	1.1525	1.3107
Australia	(Aus $)	2.2925	1.2046	0.7738	0.8800
Austria	(Schilling)	20.825	10.9432	7.0295	7.9942
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Gabon	(CFA Fr)	496.38	260.8407	167.5544	190.5489
Gambia	(Dalasi)	15.1242	7.9475	5.1052	5.8058
Germany East	(DMark)	2.9625	1.5567	1	1.1372
Germany West	(DMark)	2.9625	1.5567	1	1.1372
Ghana	(Cedi)	640.00	336.3110	216.0337	245.6813
Gibraltar	(Gib £)	1.00	0.5254	0.3375	0.3838
Greece	(Drachma)	284.10	149.2905	95.8987	109.0595
Greenland	(Danish Krone)	11.2850	5.9301	3.8092	4.3320
Grenada	(E Carr $)	5.15	2.7062	1.7383	1.9769
Guadaloupe	(Local Fr)	9.9275	5.2167	3.3510	3.8109
Guam	(US $)	1.9030	1	0.6423	0.7305
Guatemala	(Quetzal)	8.6016	4.5200	2.9034	3.3019
Guinea	(Fr)	572.25	300.7094	193.1645	219.6737
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	41.00	21.5449	13.8396	15.7389
Panama	(Balboa)	1.9030	1	0.6423	0.7305
Papua New Guinea	(Kina)	1.7828	0.9368	0.6017	0.6843
Paraguay	(Guarani)	2278.84	1197.4986	769.2286	874.7946
Peru	(Intl)	837974.29	440343.820	282860.520	321679.190
Philippines	(Peso)	45.80	24.0672	15.4599	17.5815
Pitcairn Is	(£ Sterling)	1.00	0.5254	0.3375	0.3838
	(NZ $)	3.0610	1.6085	1.0332	1.1750
Poland	(Zloty)	17547.00	9220.7041	5923.0379	6735.8925
Portugal	(Escudo)	262.30	137.8349	88.5400	100.6909
Puerto Rico	(US $)	1.9030	1	0.6423	0.7305
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Special Drawing Rights Sept. 14, 1990 United Kingdom £0.739981 United States $1.39374 Germany West D Mark 2.18859 Japan Yen190.246 European Currency Unit Rates Sept 17,1990 United Kingdom £0.695557 United States $1.32573 Germany West D Mark 2.06178 Japan Yen182.156

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar; ¢Kuwait; Dinar unavailable.
Some data supplied by Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.
Monday September 17, 1990

INTERNATIONAL CAPITAL MARKETS

Oil prices put long-dated Treasuries under pressure

By **Janet Bush** in New York and **Simon London** in London

US TREASURY bonds drifted lower, hurt by higher oil prices, the lack of a budget accord and higher interest rates overseas.

Trading was subdued and price fluctuations small with traders cautious in view of *events in the Middle East* and continuing uncertainty about monetary policy. In late trading, short-dated issues were quoted mostly unchanged while the Treasury's benchmark long bond stood 1/16 point lower for a yield of 9.06 per cent.

Long bond prices took their cue from movements in the oil market with October futures quoted $1.87 a barrel higher on the New York Mercantile Exchange at $33.63.

The market was also somewhat defensive as there was still no agreement on cutting the budget deficit during the morning, because the dollar was weak and because interest rates were higher abroad, particularly in Japan. There is a great deal of new Treasury supply over the next two months and little confidence that Japanese investors will be interested in buying much of it.

Another factor in the market was monetary policy which the Fed again *showed no sign of* easing. Bond traders are now beginning to talk about the market losing confidence in the central bank.

Analysts at Griggs & Santow said that the market saw the Fed's apparent willingness to ease policy on any budget accord as being soft on inflation.

They added, in reference to comments by Mr Alan Greenspan, Fed chairman: "The head of a central bank willing to say in public that he doesn't mind *seeing his country's currency* deteriorate also does not do wonders for a central bank's reputation."

GOVERNMENT BONDS

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	09/92	101-22	+2/32	12.53	12.52	12.78
		9.000	03/00	84-07	-2/32	11.81	11.81	12.02
		9.000	10/08	80-07	+1/32	11.18	11.18	11.47
US TREASURY *		8.750	08/00	99-00	-4/32	8.90	8.78	8.78
		8.750	08/20	97-24	-13/32	9.05	8.91	8.94
JAPAN	No 119	4.800	6/99	81.2563	-0.242	8.54	8.23	8.08
	No 130	6.700	06/00	92.0870	-0.451	8.18	7.90	7.57
GERMANY		8.500	08/00	96.5500	-0.130	9.04	8.96	8.95
FRANCE	BTAN	9.000	11/95	94.7284	-0.220	10.35	10.19	10.25
	OAT	8.500	03/00	88.2500	-0.390	10.48	10.27	10.18
CANADA *		10.500	07/00	97.3500	-0.850	10.94	10.75	10.74
NETHERLANDS		9.000	07/00	88.7700	-0.170	9.19	9.07	9.81
AUSTRALIA		13.000	07/00	97.1671	-0.263	13.52	13.45	13.57

London closing, *New York closing
Yields: Local market standard
Prices: US, UK in 32nds, others in decimal
Technical Data/ATLAS Price Sources

Analysts at Griggs & Santow ...

■YIELDS ON German government bonds have now breached the 9 per cent level and yesterday the benchmark 8½ *per cent 10-year bund* closed on a yield of 9.03 per cent, after opening at 8.98 per cent.

With the 9 per cent level established some analysts expect yields to move quickly towards 9.5 per cent.

In the futures market the December bund futures contract *closed up a shade* at 81.06 after opening at 80.98.

Volume was a fairly light 23,300 contracts.

In the absence of fresh developments in the Gulf crisis, the week's trading is expected to revolve around *the outcome of* a regular Bundesbank meeting on Thursday, and a press conference scheduled for Wednesday, at which Mr Karl Otto Pöhl, Bundesbank president, will outline the latest German position on European economic and monetary union.

■UNCERTAINTY over the UK economic outlook continued to depress prices of UK government bonds, with the benchmark 2003/2007 11¾ per cent gilt closing down 1/16 of a point *on the day at 99⅞ for a yield of* 11.80 per cent.

On the futures market the long gilt future was unchanged on the day at 82.18 having fluctuated within a very narrow range in thin volume.

Friday's announcement that the annual rate of increase in the *retail price index* was *10.6* per cent in August has led analysts to predict inflation at around 10 per cent for the remainder of the year.

The Government looks increasingly unlikely to sanction any cut in interest rates in the near term.

Today the Government announces the public sector borrowing requirement *for* August, amid uncertainty over the impact on public sector finances of military involvement in the *Gulf crisis and the* implementation of the community charge.

Analysts are forecasting a borrowing requirement in the region of £800m after net debt repayment of £3bn in July.

■JAPANESE government bonds *slipped during Tokyo* trading ahead of the half-year *account* close, with the yield on the benchmark No 119 issue moving out to 8.57 per cent after opening at 8.50 per cent.

Analysts said the main issue was whether the market would rebound into the new account or *whether yields* would be pushed higher on fundamentals.

A key economic indicator was being awaited today with the announcement of August money supply figures.

Expectations focus on a reduction in the rate of money *supply growth from a year-on-*year 12.2 per cent in July towards 12 per cent for August.

■THE New York Stock Exchange, the Soviet Ministry of Finance and Soviet central bank, Gosbank, are to sponsor *a three-day seminar in Moscow* on stock exchanges and their role in financial markets, Reuter reports from New York.

The NYSE said the seminar would be an "important" step in the Soviet Union's proposal to create its own securities *market.*

A delegation of more than 20 US financial specialists will be led by Mr John J. Phelan Jr, the NYSE chairman.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on September 17

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES	Spread	Bid	Offer	C.cpn	C.yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day = Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread = Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn = The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS

Three Japanese banks put on creditwatch by Moody's

By Robert Thomson in Tokyo

THE Long-Term Credit Bank of Japan, the Mitsubishi Bank and the Tokai Bank, all leading Japanese institutions, have been put on the credit review list of Moody's Investors Service, the US ratings agency, because of concerns about their profitability and domestic asset base.

The review listings and possible downgrading follow the recent downgrading of Dai-Ichi Kangyo and Fuji Bank debt ratings, and come as Japanese banks are attempting to lift sagging capital adequacy ratios.

Moody's suggested that the Long-Term Credit Bank, which now has an Aa2 debt rating, has a "weakening franchise as a wholesale bank" in a shrinking corporate banking market. The agency says that the bank's real-estate exposure will be examined as will its "highly leveraged transactions and other high-risk overseas borrowers.

"However, the LTCB has been developing its merchant banking capabilities and is positioning itself to be a strong competitor if the Japanese securities business is opened to banks,"the agency said.

Mitsubishi Bank is one of only two Japanese banks to maintain an Aaa rating – the other is Sumitomo – but the ratings agency said that the bank's "relatively weak core profitability" and its "vulnerability to domestic asset deterioration" have prompted a review of the rating.

The agency suggested that the bank's asset quality will be examined "at a time when Japanese interest rates have climbed rapidly and when inflated asset values are being pressured."

However, it noted that Mitsubishi "remains a well-managed, conservative bank with a strong international presence."

Tokai Bank's competitiveness and domestic banking strategy will be examined, the agency said.

The bank, which now has an Aa2 rating, will also be checked for asset quality, "especially in its domestic real estate-related loan portfolio and its overseas credits."

IDB to help reduce debt costs

By Tracy Corrigan

THE Inter-American Development Bank is to help finance the efforts of its member countries to reduce their debt and debt-servicing costs.

Authorisation by the bank's board of governors is expected by October 15, and lending for debt reduction purposes should start before the end of the year.

It is not yet clear how substantial the lending will be, but many of the bank's members are keen to borrow for this purpose, an official said. However, precise guidelines for the lending have yet to be drawn up, he added.

This new role for the IDB was urged by US President George Bush in his "Enterprise for the Americas" plan announced in June, as well as by a number of IDB governors at their annual meeting in Montreal in April.

For the first two years, the Inter-American Development Bank debt reduction financings will be carried out with the World Bank, which has financed debt reduction since May 1989 under its sector adjustment lending programme.

Similarly, the IDB's lending will be part of its sector lending, which may not exceed 25 per cent of the bank's lending resources. Both constitute lending towards sector reform, rather than the more traditional project finance.

The move follows the seventh replenishment of the bank's capital resources, which increased its lending capacity to \$22.5bn for the period 1990-1993.

● Southern Water, the UK water distribution company, is to borrow £40m from the European Investment Bank.

Southern Water Services, a subsidiary, has signed a £40m facility with the EIB, which will finance some environmental improvement schemes. The loan will help finance the £3m per week which Southern Water is currently spending on capital projects.

Spain to resume matador issues

SPAIN expects to approve the resumption of matador bond issues next month, Reuter reports.

It has held back the approval of new issues since July because of the strength of the peseta.

A Spanish Treasury official said the authorities were now open to proposals from interested borrowers, but with some restrictions.

"Borrowers can apply but we will adopt a certain moderation in deciding whether to approve new issues."

The official could not say what limits might be imposed on amounts or frequency.

The Treasury plans to meet, possibly in the first week of October, to determine criteria on volume and to draw up a timetable for issues.

The official acknowledged that interest in peseta-denominated foreign borrowing might have declined since July, but pointed out that most markets were affected by caution in the wake of the Gulf crisis.

"We could see a first issue in October, but things are still a little bit in the air. It should be clearer after we have met," the official said.

The last issue was a Pta10bn, five-year bond for Denmark carrying a 13.75 per cent coupon.

Amex plans options on Japanese shares

By Janet Bush in New York

THE American Stock Exchange yesterday announced the launch of put and call options on a new index called the Japan Index, designed by the exchange which represents 210 blue chip Japanese shares.

The options on the Japan Index will be launched next Tuesday pending approval from the Securities and Exchange Commission. The launch is clearly aimed at the start of trading of two sets of futures and options on futures in Chicago. The Chicago Mercantile Exchange is launching these derivatives based on the Nikkei 225 and the Chicago Board Options Exchange products will be based on the Topix index of Japanese shares.

The Amex product will be denominated in dollars and, according to the exchange, offers investors the first opportunity to trade SEC-regulated options on a broad market index of Japanese stocks. The exchange said it expected retail investors and institutions to be attracted because they could trade in their home currency and be regulated domestically.

The European-style options are relatively long term and basically offer investors a bet on the Japanese stock market.

There is, however, scepticism on Wall Street about this rash of derivatives because of concern of the Ministry of Finance and the Tokyo Stock Exchange about US speculators using derivatives in the Japanese market. The Tokyo Exchange asked US houses to stop issuing warrants because of their perceived role in the Japanese stock market plunge earlier this year.

Mr James Jones, Amex chairman, said: "We think these options will have a minuscule effect on the Japanese market and are going ahead for competitive reasons."

In a separate announcement, the Amex said that it had received an 18-month contract from the Economic Development Corporation of Honolulu to explore setting up securities trading in Hawaii.

Slow reception for Czech issue

By Tracy Corrigan

CZECHOSLOVAKIA'S second Eurobond offering, a DM350m five-year deal, met some resistance from German retail investors facing a surfeit of high coupon paper.

The D-Mark Eurobond market has been divided into three tiers this year: top-quality borrowers, often supranationals; Japanese borrowers issuing equity-linked paper; and lower quality borrowers, often sovereigns, paying high coupons aimed at enticing German retail investors.

Deals by Hungary, India and Turkey, as well as some Latin American offerings paying 11 per cent interest, are all competing for the attention of an increasingly cautious investor base.

Although the deal got off to a slow start, Czechoslovakia is the strongest credit in eastern Europe, as well as the most closely tied to Germany culturally.

In time, it should perform better than the National Bank of Hungary's DM200m issue of five-year bonds launched last week, also by Deutsche Bank, dealers said.

Czechoslovakia's economy, with its strong industrial base, is considered the closest in eastern Europe to a market economy.

In addition, its level of foreign debt is the second lowest in the eastern bloc after Romania, and Czechoslovakia's balance of payments is almost flat.

Hungary, on the other hand, is burdened with substantial foreign debt, more than 40 per cent of which takes the form of bonds. Investors are increasingly concerned that bond interest payments would therefore be more likely to be included, if Hungary were forced to reschedule its debt payments.

Despite the differences in credit quality, German retail investors showed a general lack of enthusiasm for both issues, dealers said.

Meanwhile, the World Bank's \$2bn issue of five-year global bonds launched last week, the largest fixed-rate deal in the market, continues to perform steadily.

Its spread over the five-year US Treasury yield has tightened by 2 basis points since launch, to 29 basis points, as demand from US-based accounts remains strong. There has been no selling by European holders of the paper, although a further tightening of the spread could prompt a little profit-taking.

The initial trading volume in the World Bank's third global issue has been lower than for its previous global deals, both \$1.5bn. Volatile market conditions caused by the Middle East crisis appear to have discouraged some speculative investors from taking part, so that distribution has been mainly portfolio placement with longer-term holders.

In the Australian dollar sector, ICI Australia brought an A\$60m offering of three-year bonds, targeted at retail investors. The 14¼ per cent bonds via Hambros Bank were quoted just inside 1¼ point fees at less 1⅜ bid.

● C. ITOH, the Japanese trading house, plans to establish a finance joint venture in London with Westinghouse Credit of the US to engage in merchant banking activities in Europe, AP-DJ reports.

The joint venture, European Capital, will be capitalised at \$1m and will formally begin operations on September 20. The joint venture will engage in merchant banking activities such as project finance, trade finance and M&A consulting.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
D-MARKS						
Ces'venska.Obchodni Bka(a)♦	350	10	101	1995	2/1¼	Deutsche Bank
AUSTRALIAN DOLLARS						
ICI Australia Fin.(a)♦	60	14¼	101½	1993	1½/1	Hambros Bk
US DOLLARS						
Sumitomo Heavy Ind.(b)‡♦	340	4⅞	100	1994	2¼/1½	Daiwa Europe

**Private placement. §Convertible. †Floating rate note. ‡With equity warrants. ♦Final terms. a) Non-callable. b) Coupon was indicated at 5⅛%. Conversion premium fixed at 2.5%.

INTERNATIONAL BONDS

Morgan Grenfell to launch European unit trust fund

By Katharine Campbell in Frankfurt

MORGAN Grenfell, the UK merchant bank, yesterday launched a unit trust which marks one of its first co-operation ventures in the field of fund management with Deutsche Bank, its parent since its acquisition last year.

The Morgan Grenfell Europa Fund, which will target European small companies with a capitalisation of less than £250m, will make use of Deutsche Bank's investment research facilities, not only in Germany but throughout Europe.

The German bank's importance in the new issue business, particularly at home, will offer a further important entrée. Strategy and stock selection will be done in London.

However, under the terms of last year's agreement, Morgan Grenfell cannot market the fund through Deutsche's extensive and lucrative network within Germany. While the UK fund management team assumes responsibility for Deutsche's former international money management operations, the protected German market remains the preserve of Deutsche Bank, Germany's biggest bank.

Mr Tony Fraher, managing director of Morgan Grenfell Unit Trust Managers, said he would be satisfied to attract about £10m into the fund, primarily from the UK and Far East initially.

This was about a fifth of the target before the Gulf crisis dented European stock market performances. "Unit trust companies are often accused of launching at the top of market – Europa proves that this is not always the case," Mr Fraher argued.

Chemical Bank to close securities trading arms

CHEMICAL New York Capital Market Corp, the Geneva based international securities trading company which is part of Chemical Banking of the US, is to close, Reuter reports.

Chemical Securities Company (Japan), its Tokyo offshoot, which operates mainly as a security broker and trader for Japanese institutional clients, will also close, Chemical added.

Chemical said all outstanding transactions would be duly completed, so that the activities of the Geneva unit and the Tokyo offshoot would probably be brought to a close at the end of this year.

Mr François Larsen, general manager, said in a statement that Chemical group had decided to withdraw from international share trading.

The decision formed part of a strategy to limit capital market business to central, profit-making activities. A problem in Switzerland was that share markets were marked by high transaction costs and poor liquidity, he said.

Chemical Bank is to continue its Zurich-based financial service department, which offers Swiss banks and firms cash-management and money-transfer services.

In addition Chemical would be able to serve Swiss customers in the currency and money market sectors and for other financial services through its branches in London and Frankfurt, it added.

Chemical Banking Corp reorganised its management early this month and said its strategy would stress retail banking, investment/wholesale banking and operational services.

The announcement is the latest retrenchment by US banks in Switzerland.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

EQUITY GROUPS & SUB-SECTIONS. Figures in parentheses show number of stocks per section. Monday September 17 1990.

	Equity groups & sub-sections	Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Fri Sep 14 Index No.	Thu Sep 13 Index No.	Wed Sep 12 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (195)	703.83	-1.1	15.96	6.65	7.68	25.75	711.57	724.28	733.77	981.11
2	Building Materials (26)	866.99	-1.0	17.53	6.97	7.03	33.68	875.94	893.33	917.74	1166.64
3	Contracting, Construction (36)	1078.03	-0.6	20.63	7.60	6.32	42.06	1084.11	1100.44	1131.28	1569.28
4	Electricals (10)	1916.02	-4.7	14.68	7.01	8.33	64.89	2010.05	2043.04	2068.20	2916.53
5	Electronics (27)	1542.63	-0.8	10.71	5.21	12.65	55.67	1555.34	1584.44	1596.03	2208.94
6	Engineering-Aerospace (8)	424.22	-0.7	15.86	5.68	7.58	10.79	427.04	430.85	446.02	0.00
7	Engineering-General (46)	398.76	-2.1	14.95	6.51	8.06	14.87	407.22	410.87	412.75	0.00
8	Metals and Metal Forming (6)	409.47	-0.6	28.19	8.22	4.31	17.02	411.83	415.25	418.95	522.33
9	Motors (13)	293.44	-1.4	18.29	8.05	6.36	13.91	297.64	300.14	303.29	357.40
10	Other Industrial Materials (23)	1194.19	-0.5	14.42	6.84	8.02	40.92	1200.73	1235.52	1235.76	1794.81
21	CONSUMER GROUP (178)	1174.06	+0.5	10.50	4.35	11.77	26.11	1167.86	1182.32	1188.95	1377.94
22	Brewers and Distillers (22)	1452.92	+0.9	10.58	4.01	11.44	30.61	1440.26	1467.40	1480.66	1520.84
25	Food Manufacturing (20)	1000.80	+0.4	11.65	4.88	10.60	24.47	996.89	1009.94	1013.95	1192.28
26	Food Retailing (16)	2397.98	+0.7	9.74	3.44	13.02	45.88	2382.26	2412.16	2408.89	2628.09
27	Health and Household (16)	2347.24	+1.3	7.53	3.00	15.81	29.07	2316.04	2346.47	2371.72	2648.23
29	Leisure (32)	1178.94	+0.2	12.68	5.30	9.54	36.39	1176.55	1188.85	1200.99	1811.85
31	Packaging & Paper (12)	488.78	-1.3	13.17	7.11	9.33	20.57	495.16	504.66	505.54	610.60
32	Publishing & Printing (16)	3038.33	-0.7	11.96	6.17	10.48	117.68	3061.23	3092.70	3086.78	3795.39
34	Stores (33)	752.96	....	11.79	5.02	10.99	17.19	753.15	756.66	759.52	890.81
35	Textiles (11)	406.91	-0.9	14.81	8.86	8.54	19.76	410.55	411.56	402.18	584.99
40	OTHER GROUPS (107)	995.89	-0.4	12.75	5.98	9.49	30.13	999.43	1016.97	1019.70	1206.08
41	Agencies (16)	1162.67	-1.9	8.79	3.37	13.74	20.34	1184.59	1219.76	1205.46	1560.78
42	Chemicals (24)	1001.23	+0.9	13.24	6.64	8.92	44.26	992.47	1019.79	1031.08	1327.50
43	Conglomerates (15)	1317.53	-0.2	12.78	7.57	9.40	34.46	1320.79	1347.73	1354.36	1716.54
44	Transport (13)	1901.01	-0.4	12.78	5.56	9.92	50.29	1908.84	1912.74	1925.44	2436.36
46	Telephone Networks (2)	1133.01	-1.3	11.81	4.97	11.01	26.09	1147.94	1165.78	1164.22	1175.23
47	Water (10)	1960.70	+0.3	15.73	6.91	7.15	68.12	1954.80	1943.54	1950.63	0.00
48	Miscellaneous (27)	1501.33	+0.3	14.00	6.04	8.20	61.26	1497.40	1533.39	1535.84	1937.46
49	INDUSTRIAL GROUP (480)	1005.90	-0.1	12.41	5.37	9.86	28.08	1006.99	1022.32	1028.85	1242.67
51	Oil & Gas (20)	2453.28	-0.7	10.17	5.10	12.87	72.16	2471.07	2489.16	2503.49	2253.41
59	500 SHARE INDEX (500)	1123.47	-0.2	12.04	5.32	10.26	31.65	1125.83	1141.50	1148.67	1328.38
61	FINANCIAL GROUP (107)	676.40	+0.1	–	7.01	–	29.35	675.94	687.50	693.90	812.66
62	Banks (9)	719.82	+0.7	22.71	7.98	5.77	41.50	714.91	731.48	738.43	827.54
65	Insurance (Life) (7)	1318.35	+0.5	–	5.79	–	37.79	1311.39	1325.76	1336.91	1211.20
66	Insurance (Composite) (6)	575.28	+1.1	–	7.38	–	24.94	569.19	581.41	588.14	673.70
67	Insurance (Brokers) (8)	801.41	-1.5	10.66	8.02	12.36	39.82	813.31	822.29	841.27	980.40
68	Merchant Banks (7)	348.52	-1.7	–	5.83	–	11.93	354.44	362.25	370.36	397.94
69	Property (47)	896.02	-1.5	8.61	5.47	15.40	23.74	910.03	916.00	919.92	1352.38
70	Other Financial (23)	246.83	-1.5	11.00	7.20	11.95	9.88	250.65	252.90	253.42	363.46
71	Investment Trusts (66)	1040.42	-0.7	–	3.79	–	23.74	1048.11	1061.16	1064.74	1273.25
91	Overseas Traders (5)	1254.89	-1.2	11.50	7.29	10.35	59.65	1270.02	1278.86	1281.10	1478.04
99	ALL-SHARE INDEX (678)	1015.99	-0.2	–	5.53	–	30.76	1017.95	1032.47	1039.28	1203.10

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Sep 14	Sep 13	Sep 12	Sep 11	Sep 10	Year ago
FT-SE 100 SHARE INDEX‡	2094.3	+0.5	2095.9	2072.5	2093.8	2127.1	2142.3	2144.3	2147.0	2373.8

FIXED INTEREST

	PRICE INDICES	Mon Sep 17	Day's change %	Fri Sep 14	xd adj. today	xd adj. 1990 to date
	British Government					
1	Up to 5 years	116.58	+0.05	116.52	–	8.63
2	5-15 years	120.23	+0.09	120.12	–	9.65
3	Over 15 years	120.61	+0.06	120.54	–	9.84
4	Irredeemables	139.62	+0.03	139.58	–	8.85
5	All stocks	120.88	+0.07	120.79	–	9.41
	Index-Linked					
6	Up to 5 years	151.27	....	151.26	–	2.46
7	Over 5 years	137.58	....	137.57	–	3.12
8	All stocks	138.50	....	138.49	–	3.06
9	Debentures & Loans	99.25	+0.13	99.12	–	8.62
10	Preference	73.58	+0.10	73.50	–	4.58

	AVERAGE GROSS REDEMPTION YIELDS		Mon Sep 17	Fri Sep 14	Year ago (approx.)
	British Government				
1	Low	5 years	11.05	11.06	9.73
2	Coupons	15 years	11.05	11.06	9.34
3		25 years	11.05	11.06	9.25
4	Medium	5 years	12.16	12.17	10.72
5	Coupons	15 years	11.59	11.60	9.74
6		25 years	11.28	11.29	9.37
7	High	5 years	12.25	12.27	10.83
8	Coupons	15 years	11.87	11.87	9.95
9		25 years	11.60	11.60	9.53
10	Irredeemables†		11.12	11.12	9.31
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	4.69	4.68	3.10
12	Inflation rate 5%	Over 5 yrs.	4.34	4.34	3.52
13	Inflation rate 10%	Up to 5 yrs.	3.44	3.42	2.23
14	Inflation rate 10%	Over 5 yrs.	4.14	4.14	3.34
15	Debs &	5 years	14.05	13.92	12.78
16	Loans	15 years	13.06	13.02	11.94
17		25 years	12.74	12.73	11.44
18	Preference†		12.92	12.91	10.31

‡Opening index 2080.3; 9 am 2074.1; 10 am 2083.7; 11 am 2087.4; Noon 2089.1; 1 pm 2081.9; 2 pm 2081.9; 3 pm 2080.6; 4 pm 2094.9; 4.10 pm 2095.7; (a) 4.04pm (b) 8.49am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	28	1	68
Corporations, Dominion and Foreign Bonds	1	6	15
Industrials	167	566	832
Financial and Properties	59	303	379
Oils	8	35	46
Plantations	2	1	7
Mines	20	50	89
Others	25	95	120
Totals	310	1,057	1,556

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price	+or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
–	F.P.	–	131	105	ABI Leisure 10p	105	-1	R4.7	3.3	6.0	6.9
–	F.P.	–	7½	4	Bennett & Fountain Wts.	6½		–	–	–	–
–	F.P.	–	49	35	Exp Co of Louisiana Wts.	46		–	–	–	–
–	F.P.	–	2	½	Finlan Group 1p	½		–	–	–	–
–	F.P.	–	14	4	Fisher (Albert) Warrants	7		–	–	–	–
–	F.P.	–	75	43	Golden Vale Ir1p	47		Q158%	5.1	3.2	8.6
100	F.P.	–	98	81	Jupiter Euro Inv Trust	81		–	–	–	–
–	F.P.	–	38	25	Do. Warrants	25		–	–	–	–
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price £	+or -
[illegible]							

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price p	+or -
[illegible]							

Renunciation date usually last day for dealing free of stamp duty. a Amount calculated on prospectus estimate. [illegible] based on latest annual earnings. ■ Dividend and yield based on prospectus or other official estimates for 1990. ■ Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ▼ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ¶ Unlisted securities market. * Third Market. ♦ Issued in connection with reorganisation, merger or takeover.

TRADITIONAL OPTIONS

- First Dealings — Sept. 17
- Last Dealings — Sept. 28
- Last Declarations — Dec. 27
- For settlement — Jan. 7

For rate indications see end of London Share Service

Calls in Ferranti Intl., Saatchi & Saatchi, Gaelic Res., Beazer and Brent Walker pref. Put in Wickes.

LONDON TRADED OPTIONS

PATCHY TRADING on the derivative markets yesterday was dominated by business in FT-SE options and futures because of individual unpredictable stocks.

On the London International Financial Futures Exchange the September FT-SE future opened at a 3-point discount, struggled in the early stages and then rallied up to premium when Wall Street showed a recovery after initial losses of 19 points. At one point the September issue moved up to an 8-point premium, but a medium-sized sale in the last minute of trading forced it back to its closing price of 2,098, three points up on the underlying equity index.

It closed with a healthy turnover of 7,995. The December future also saw active trading with one of the heaviest turnovers so far - 2,308.

UBS Phillips & Drew said it was a strong buyer and forced the market up to 2,104 with a small futures squeeze early on as other dealers moved in to cover their short positions.

The FT-SE was also the only salient feature on the London Traded Options Market which saw a brisk general turnover of 35,818 contracts.

There were 14,428 FT-SE contracts exchanged while dealers said that the only equity option that saw any business – Rolls-Royce with 2,518 lots traded – was simply reflecting two-way business and intra-market trading taking advantage of the stock's high volatility.

The other top performers were all below the 1,000 level. Polly Peck saw 997 lots traded, Trusthouse Forte 950 contracts, BTR, 946 contracts and British Steel 934 contracts.

Barclays was a strong contender after one broker bought 500 December puts in early trading but it never really took off and ended with a turnover of 862.

The day's main equity story, the fall in Hawker Siddeley shares following depressing results and predictions, did not spill over into the options market because few marketmakers cover that stock.

Option		Calls Oct.	Calls Jan.	Calls Apr.	Puts Oct.	Puts Jan.	Puts Apr.
Alld Lyons (*468)	420	54	47	82	3	8	12
	460	22	40	57	9½	21	25
	500	6	22	37	35	42	46
[illegible]							

Option		Calls Oct.	Calls Jan.	Calls Apr.	Puts Oct.	Puts Jan.	Puts Apr.
Utd. Biscuits (*321)	300	24	37	42	4½	9	14
	330	6	19	26	20	24	27
	360	2	8	14	46	47	49
[illegible]							

Option		Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
Abbey Nat. (*213)	200	14	23	30	1	5	10
	220	1½	12	17	8	13	17
[illegible]							

هكذا من الأصل

UK COMPANY NEWS

Sterling strength limits Inchcape growth to 5.2%

By Andrew Bolger

INCHCAPE, the international services and marketing group, yesterday announced a 5.2 per cent increase in pre-tax profits to £92.3m in the six months to June 30, but sounded a cautious note on its trading outlook.

Turnover rose 12 per cent to £1.62bn and earnings per share increased by 2.2 per cent to 14p. The interim dividend was lifted by 7 per cent to 4.8p.

Sir George Turnbull, chairman and chief executive, said: "Despite a less favourable business climate in most parts of the world, we have continued to grow in the majority of our operations.

"The strength of sterling, however, has reduced the translated value of our profits before tax by about £6.5m. Excluding this translation effect, our underlying profit before tax grew approximately 13 per cent at constant rates of exchange."

Inchcape at present translates its underlying local currency profits at the closing rate of exchange. It has decided that from the end of this year it will translate on an average exchange rate basis. When it moves to this basis, yesterday's pre-tax profits will be restated as about £96m, compared with £83m in 1989.

Inchcape said motor activities, particularly in vehicle distribution, continued to be one of the great strengths of the group. Profits for the first half had again increased, due to strong performances in many of its markets, particularly Toyota vehicles in the Far East, south-east Asia, Greece and the UK, the Mazda franchise in the Far East and Ford tractors in Thailand.

In service activities, insurance services increased profits, in spite of the extremely competitive nature of their markets, while the underlying performance of inspection and testing had improved when measured at constant rates of exchange.

Shipping services trading performance had improved but reported profits were down, due to restructuring and other costs, and exchange effects. Buying services, which supplies big department stories with goods, showed a loss because of investment in establishing and relocating offices and the downturn in the group's retail markets.

Sir George said: "We are currently faced with more difficult conditions in some of our markets and the position in the Middle East remains unresolved. Clearly, if the dollar remains at its present level, we shall again suffer when translating much of our overseas earnings.

"We are a group with strong management in growth markets throughout the world and and our long-term potential is significant. Conditions in the short term will test our skills, experience and global knowledge as we work to maintain our record of continued improvements in our performance. Unless there are major disruptions to world trade, I believe we shall continue to prosper."

● COMMENT

Sir George runs a tight ship, but there are more comfortable places to be at the moment that at the helm of a global trading organisation which has more than half its profits in dollar-related currencies and similar scale of contribution from motor-related activities. Analysts are looking for full-year pre-tax profits of about £185m, stated on the new average exchange rate basis. At yesterday's close of 221p, down 8p, the shares are on a prospective multiple of about 8. There seems little scope for much advance from this level until the world economic outlook become a little clearer.

Overseas sales help Memec gain 25%

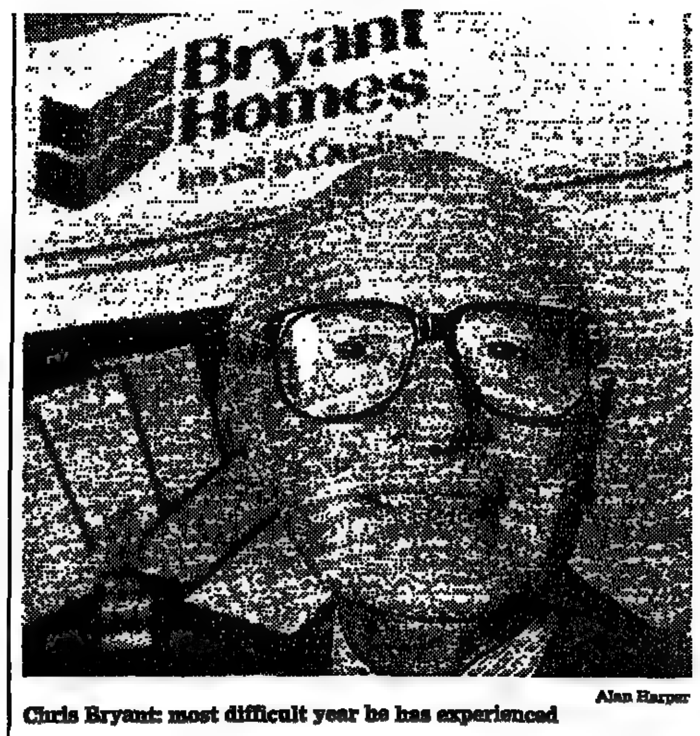
THE CONTRIBUTION from its French subsidiary helped Memory and Electronic Components (Memec) raise pre-tax profits from £3.39m to £4.24m for the six months to June 30.

The 25 per cent rise was achieved on sales of £57.92m (£49.04m) with net interest received totalling £203,000 (£534,000). Minority interests cost £72,000 (£21,000) and tax took £1.61m (£1.25m).

Market share increased in all geographical areas, with the growth coming from sale of new products rather than significant changes in market conditions.

The group's recently-acquired French operation contributed sales of £2.95m and profits of £43,000. Sales grew by 11 per cent in the UK, by 18 per cent in West Germany and by 9 per cent in the US.

Earnings per 10p share worked through at 9.35p (7.79p) and an interim dividend of 1.65p (1.5p) is declared.



Alan Harper

Chris Bryant: most difficult year he has experienced

Bryant plummets £31m to £20m in 'difficult year for our industry'

By Andrew Jack

MR CHRIS BRYANT, chairman of Bryant Group, the housebuilding and construction company, yesterday reported pre-tax profits down from £51.4m to £20.1m for the year to May 31.

He said the 12 months were "the most difficult year in our industry I have experienced since becoming chairman in 1962."

The group's land bank declined by 1,050 acres to 9,400 acres during the year, including the holdings of associated companies. A lack of demand and unrealistic price expectations hindered the purchase of new prime land.

Turnover was down in the properties division to £25.9m (£33.3m). Higher interest rates affected tenants' and investing institutions' confidence and led to a downturn in the commercial property market, said Mr Bryant.

Forward development has been severely curtailed and the company was only proceeding with new schemes where pre-sale or pre-funding had been achieved, he added.

Turnover rose 22 per cent to £99.4m (£81.3m) in the construction division. Forward order books stood at £80m, the same level as this time last year, the company said.

Mowlem declines 20% to £18m and attacks interest rate policy

By Maggie Urry

THE ANNOUNCEMENT of a 20 per cent fall in interim profits at John Mowlem, the construction, scaffolding, property and housebuilding group which owns London City Airport, was accompanied by an attack on the Government's interest rate policy by Sir Philip Beck, chairman.

Of high interest rates Sir Philip said: "Even if the policy is correct, its timing and severity of application appear to lack finesse."

In spite of the fall in first half profits, which worked through to a decline in earnings from 16.4p to 13.2p per share, the interim dividend is maintained at 5.65p. Sir Philip said: "The appropriate time to consider an increase in the dividend would be at the year-end."

Turnover rose by 23 per cent to £764m in the six months to June 30, but pre-tax profits fell from £22.5m to £18m. The shares, which had fallen over the last two weeks, recovered 5p to 257p yesterday.

Sir Philip said the main causes of the profits fall were the downturn in the housebuilding division – which barely broke even before interest charges – and a loss in the associate property company.

Sales of houses fell by a third, even from the low level of the first half of 1989. Sir Philip said prices had not fallen further.

He felt that once interest rates were cut, the housing division would "return to good profitability". Mowlem has not made a provision against its land bank, as have some other housebuilders following the fall in land values.

Operating profits were ahead in the construction division, thanks to a good performance in the UK which offset slightly lower profits from overseas. The forward order book stands at £1.2bn.

Scaffolding, which made up more than half of group profits in 1989, pushed operating profits up slightly, Sir Philip said, although there was a squeeze on margins in the UK. He said he thought the business would be fairly resilient to a recession as it was not heavily exposed to new building. Mowlem's hire shops suffered from increased costs and a high level of bad debts, cutting operating profits slightly.

The group's own property activities contributed to profits and sales have already been made in the second half. But the 50 per cent-owned Maple Oak property business made a loss after interest charges. Sir Philip said Mowlem had decided to hold on to its £50m property portfolio rather than sell properties at low prices. The associate loss was £1.4m (profit £400,000).

Sir Philip said that he was hopeful of getting permission to extend the runway at London City Airport. Last year the group provided £33m to write down its investment in the airport and to cover expected losses.

Group interest charges fell from £6.2m to £3.3m. Mowlem has long-term borrowings at a fixed rate of about 11 per cent and has reinvested some of this in the money markets at higher rates, thus reducing the interest charge.

● COMMENT

Mowlem has not fared as badly as some groups in the building and construction sector. But by the same token it may not do as well in the upswing once interest rates come down. A recession would be bound to hit the scaffolding side, and once business picks up on the construction front Mowlem will suffer a margin squeeze as it completes work taken on now as the result of competitive tendering. If Mowlem makes £45m pre-tax for the year, before any provisions against its land bank which it might make as some other housebuilders have done, compared to £55m last year (excluding the £33m provision last time) a maintained dividend would be covered, though not generously. That would give a yield of 10.9 per cent, which is more of an attraction at the moment than a prospective p/e of about 8.

US expansion as Bovis pays $27m for McDevitt & Street

By Charles Leadbeater, Industrial Editor

UNDETERED BY the downturn in the US construction industry, Bovis, the construction arm of Peninsular & Oriental Steam Navigation, yesterday made its second US acquisition with the £27.5m ($52m) purchase of McDevitt & Street, a privately owned general contractor.

The deal will double Bovis' US turnover, following its acquisition two years ago of Lehrer McGovern, the construction project manager which restored the Statue of Liberty.

McDevitt & Street, which last year achieved turnover of about $880m, is the seventh largest general construction contractor in the US. Its operations, based in Charlotte, North Carolina, stretch along the East Coast from Orlando, Florida to Washington DC. These should compliment Lehrer McGovern's activities around New York and on the West Coast.

The deal comes only a week after P & O reported a 22 per cent fall to £132.1m in first half profits.

Operating profits in the housebuilding, property development and construction division fell from £82.4m in 1988, including a £21.9m gain from the sale of shares in Taylor Woodrow, the construction company, to £27m.

Most British construction groups have activities in the US particularly in Florida and on the West Coast, following a string of acquisitions in recent years. The McDevitt & Street deal will give Bovis one of the largest US operations.

Bovis said it was undetered by the downturn in the US construction market as the acquisition was a strategic move in the development of its international construction business. It did not give details of how the deal would be financed.

McDevitt & Street, founded in 1917, operates in a range of commercial sectors from offices and retail developments to hotels and residential projects.

It has about 1,600 employees and has contracts worth $480m. It recently switched from tendering for projects to working on a fee to manage projects for clients, which dovetails with Bovis' practice in the UK.

Most of the senior management at McDevitt & Street is expected to remain with the company and Mr Luther Cochrane, chairman and chief executive, will join the board of Bovis Inc, the US holding company.

Sir Frank Lampl, Bovis' chairman and chief executive, said: "From the outset we have been keen to ensure that the managers who have done so much to establish McDevitt & Street's strong standing in the industry remain with the company."

Panfida sells 128 stores in US

By Andrew Jack

PANFIDA GROUP, the Australian-controlled property and retail company which owns the Martins newsagency chain, is selling its chain of Florida stores as part of a reorganisation of its US operations.

The company has sold 128 stores owned by TOC, a 95 per cent-owned US subsidiary, to Star Enterprises for $82.5m (£43.25m) plus an amount for inventory. The sale reduces TOC's borrowings to $100m, according to Mr Peter Wenzel, Panfida's deputy chairman.

Star agreed to go ahead with the purchase of the TOC stores when Munford, another US stores group removed its threat of legal action.

Munford had previously sold some of its stores to TOC last year before going bankrupt. It threatened to take TOC to court, claiming that these purchases should be included in its assets as part of the liquidation proceedings.

But TOC has settled with Munford out of court, Mr Wenzel said. As part of the arrangement, TOC agreed to purchase the leaseholds of 178 Munford stores and pay related claims for a total of $21m.

UK COMPANY NEWS

Both divisions advance as interim profits hit £118.1m

Dalgety up 7% and set to focus on food

By Clay Harris, Consumer Industries Editor

DALGETY, the food and agribusiness group in the midst of re-organisation, increased pre-tax profits by 7 per cent from £110.4m to £118.1m in the year to June 30.

Trading profits from continuing activities rose by 24 per cent. Dalgety sold its Gill & Duffus commodity trading units in October and cut its stake in its Australian agribusiness subsidiary from 65 per cent to 41 per cent after the year-end.

Mr Maurice Warren, chief executive, said yesterday that Dalgety was now focusing on expanding its food businesses.

These include Golden Wonder crisps and pot noodles, Homepride flour and sauces, Kattomeat, Prime and Winalot pet foods, and Lucas food ingredients such as crumbs and coatings.

Dalgety is looking for medium-sized acquisitions in the UK and continental Europe which could increase the scale of its operations and add new products under its umbrella brands.

Mr Warren said, however, there were "no easy opportunities or easy pickings." He added: "It is not easy to make acquisitions, not at sensible prices."

But with gearing down from 63 per cent to 37 per cent by the year-end and now to a *pro forma* 15 per cent, "We can take advantage of any opportunities that occur," Mr Warren said.

Although he warned of harder conditions in the current year, he added: "We're not recession-proof, but we're recession-resistant because of the industry we're in."

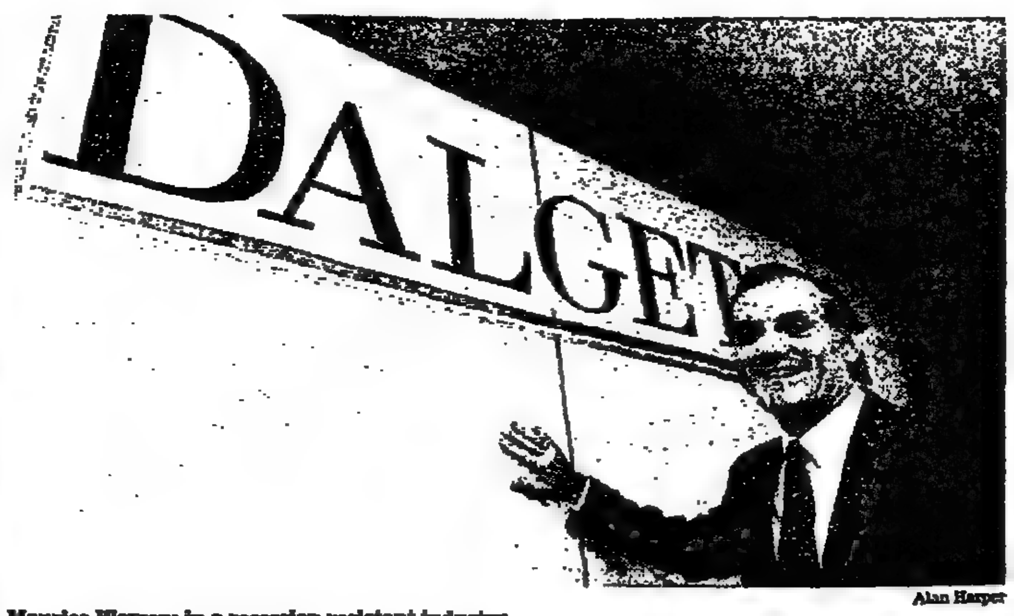
On turnover down by 3 per cent to £4.63bn (£4.76bn), total trading profits fell by 7 per cent to £145.5m (£156m). Sales on continuing activities, however, rose by 13 per cent to £4.05bn (£3.58bn) and trading profits to £109.5 (£88.1m).

Trading profits from food advanced to £86.3m (£70.1m), aided by a £3m positive swing on eggs in the UK. Those from agribusiness, where Dalgety's interests include animal feeds and the world's leading pig breeder, rose to £23.2m (£18m).

Dalgety separately listed surplus property profits of £7.7m (£9.8m), including £3m (£4m) of insurance proceeds after a fire at Golden Wonder's Corby plant. The contribution from related companies jumped to £4.5m (£2.1m), helped by improvement at a Zimbabwe associate sold after the year-end.

Interest payments fell to £39.5m (£57.5m).

The £13.5m loss on the Gill & Duffus disposal contributed to an extraordinary debit of £15.8m (£7.1m). Earnings per share rose by 8 per cent to 36.3p (33.6p). A proposed final dividend of 11p lifts the total pay-out by 10 per cent to 18.15p (16.5p).



Alan Harper

Maurice Warren: in a recession-resistant industry

● COMMENT

The Cinderella of the food sector, Dalgety has belatedly put its house in spick-and-span order. In addition to disposals, it has cut annual costs by £3m by streamlining management and an imminent move to a smaller headquarters. But, short of a fairy godmother, it is hard to see where Dalgety will find acquisitions at prices which it can afford to pay more than rival bidders. Mr Warren places his hopes on selective disposals such as Booker's planned slimming of Fitch Lovell. Because Australia has moved from subsidiary to associate, pre-tax profits may improve only marginally to £120m this year. But earnings should grow at a better pace than in 1989-90, reducing the prospective multiple to less than 9. Even if you suspect no one would bother to invent Dalgety if it did not already exist, that sells it too short.

British Land shares drop 5% as restructure is abandoned

By David Waller

BRITISH LAND, the property group headed by Mr Conrad Ritblat, said in a brief announcement yesterday that it had finally abandoned its intentions to implement controversial restructuring proposals first floated last December.

The announcement prompted a 5 per cent fall in British Land's shares, suggesting that the market harboured some hopes that a restructuring would take place in spite of the withdrawal of the original proposals just before last Christmas.

Mr Ritblat's plan was to split British Land into two companies in a complex scheme designed to narrow the gap between the share price and the value of the underlying assets.

Although the shares jumped on the news, the scheme was soon quashed after institutional investors raised objections.

Under the original plans, shareholders would have received cash proceeds from the sale of the bulk of the property portfolio, while being given the opportunity to invest in a new vehicle headed by Mr Ritblat and his management team.

Until yesterday's announcement, British Land had never formally abandoned its plans, although a difficult property market and falling share prices *in the property sector made it* look increasingly unlikely that even a modified scheme involving the sale of assets and cash distribution would go ahead.

Nevertheless, up until yesterday the company was officially working with SG Warburg to find a scheme more palatable to institutional shareholders, helping to prop up the share price.

The shares dropped 15p to 243p yesterday, putting them at a discount of 48 per cent to a brokers' estimates of net asset value of 490p.

When the scheme was first floated at the beginning of December, the shares surged 46p to 403p, against a published net asset value the previous March of 531p.

Explaining the timing of the announcement, Mr John Weston-Smith, a British Land director, said that it had only emerged "fairly recently" that there was no basis for a restructuring.

Meanwhile, the company said that it would proceed with its expansion programme.

Metro Radio raises offer for Yorkshire Radio Network

By Raymond Snoddy

METRO RADIO, the Newcastle-based commercial radio group, yesterday increased its offer for Yorkshire Radio Network to make the deal worth an estimated £16m.

Metro, backed by Capital Radio, Chrysalis and TV-am is now offering one Metro share and 15p cash for each YRN share. There is also a full cash alternative of 170p per share.

According to Metro this represents a 48 per cent premium on the Yorkshire share price before the bid was announced.

County NatWest, Metro's financial adviser, said yesterday the share offer was worth £15.58m at Friday's closing prices and the cash alternative £16.05m. This compares with a value of £13.5m of July's original offer.

So far Metro, which runs stations in the Tyne and Wear and Cleveland areas, had had acceptances covering only 1.6 per cent of the shares.

Mr Neil Robinson, managing director of Metro, said yesterday: "The new offer should be a knock-out blow."

The company yesterday bought 9.3 per cent of YRN's shares in the market. Metro now plans to call an egm to overturn restrictions in Yorkshire's articles of association preventing it acquiring more than 10 per cent. To get such a change, however, 75 per cent of the Yorkshire shareholders will have to vote with a majority in favour of more than 75 per cent.

The Metro managing director, who is forecasting an increase of pre-tax profits by 34 per cent to not less than £2.17m for the year to September, said the benefits of the new and final offer which expires on October 2, were overwhelming.

The new hostile offer is being underwritten by Capital Radio Investments, Chrysalis, Stoner Broadcasting and TV-am.

If all YRN shareholders were to choose the cash alternative, *Capital and Chrysalis would* each hold 20 per cent of the enlarged share capital with TV-am on 16.2 per cent and Stoner on 8 per cent.

It would be the first move into commercial radio for TV-am, the commercial television breakfast station.

Mr Michael Mallett, managing director of YRN, which runs radio stations in Sheffield, Bradford and Hull was unavailable for comment yesterday.

Meggitt profits static on turnover up 29%

By David Owen

MEGGITT, the specialist engineering group which last year pulled out of taking over United Scientific Holdings, yesterday reported static interim profits in spite of rising interest costs.

Pre-tax profits for the six months to June 30 totalled £12.18m, against £12.16m in 1989. Turnover climbed nearly 29 per cent to £148.38m (£115.4m).

The group projected that operating progress could "be maintained in the second half", basing its confidence on the fact that order intake outstripped sales in the first six months.

The shares, nevertheless, slipped 3½p to 65p – a new 1990 low.

Net interest payable rose to £2.95m (£1.1m). Mr Ken Coates, group managing director, said that gearing was at similar levels to the last year-end at below 40 per cent.

"It is an uphill struggle at present, but we expect to maintain it for the rest of the year," he said.

Divisional performance was mixed, with "exceptional" trading in the energy division tempered by problems in the electronics sector.

Aerospace increased turnover and profit, mainly as a result of expansion in the group's civil activities. The European controls businesses, meanwhile, "made good progress" with the performance of *Sunvic Regler, the instrument* and controls service company bought for £4.86m last December, described as "most encouraging."

Difficulties in electronics have stemmed largely from customer delays in the placing of orders for new ticketing machine systems. "The first two months of the second half have shown some improvement," said Mr Coates. "We have 80 per cent of the UK market, it is time to turn our eyes overseas," he said.

Earnings per share were unchanged at 5p. A similarly unchanged interim dividend of 1.1p is declared.

● COMMENT

Dorset-based Meggitt continues to appear one of the safest bets in this sector, with its broad spread of focused businesses and manageable debt-load. To judge by the reaction of the shares to yesterday's figures, however, it remains out of favour in the City: elephants and those who have had their fingers burnt in bid situations (in this case the abortive USH episode) never forget. The delayed orders in the electronics division are a worry, but the unit remained in profit and there are counterbalancing bright spots in energy and controls. On a prospective p/e of 6.5 assuming full-year profits of £24m, the shares are certainly not expensive. But bearing in mind the current gloomy mood of the market, long-term holders only need apply.

Little change as Manpower makes £18.5m

By Mani Deb

Manpower, the employment agency group based in Milwaukee which disposed of five of its UK subsidiaries last week, raised taxable profits marginally from £18.49m to £18.54m for the three months to July 31.

The profits rise was on a group turnover up 3.5 per cent at £463.8m (£448m). The result was bolstered by Manpower brand operations – businesses carrying the Manpower name – which increased taxable profits by 12.5 per cent to £20.17m on turnover up 14.2 per cent.

Mr Mitchell Fromstein, group chairman, said the Manpower brand was considerably helped by mainland Europe results, while economic conditions in the UK and US remained sluggish.

Over the nine months to July 31 group pre-tax profits declined 7.9 per cent to £39.83m (£43.28m), while Manpower brand profits rose 5.7 per cent to £47.87m.

Last Friday the company sold its remaining subsidiaries from the Blue Arrow Group, which acquired Manpower three years ago, to its management for £106m.

The disposal of the non-Manpower brands will leave the company with a major share of the UK employment services market with 120 operations, said Mr Fromstein.

"The strategic realignment will allow us to compete more vigorously in the world market and relieve us of a heavy debt burden," he added.

The group is expected to ask shareholders to seek the company's reincorporation in the US, but retain its quotation on the International Stock Exchange.

FA may call foul following Maxwell attack

By Andrew Hill

Mr Robert Maxwell's televised response to the tangled situation at Tottenham Hotspur, the company which owns the famous London football club, may land the publisher in trouble with the Football Association.

The Football League is to study a videotape of a television interview given by Mr Maxwell at the weekend in which he criticised the league's management.

He was questioned about the secret deal to underwrite a £13m rights issue at Spurs, which could leave Mr Maxwell with between 25 per cent and 50 per cent of the group's shares.

If the League decides it dislikes Mr Maxwell's comments, it could ask the FA to charge the publisher, who is chairman of Derby County, also of the First Division, with bringing the game into disrepute.

As well as agreeing to underwrite the rights issue, Mr Maxwell lent £1.1m to a company controlled by Mr Irving Scholar, the club chairman. That sum was then advanced to Spurs.

The terms of Mr Maxwell's loan, which was made at the beginning of August, are thought to depend on the rights issue going ahead, although full details are unlikely to emerge until Spurs produces a detailed circular on the loan for its shareholders.

Kingfisher gives Dixons undertaking

Kingfisher, the retail group whose £568m bid for Dixons, the electrical goods chain, was blocked in May by the competition authorities, has given undertakings to the government not to buy more than 9.9 per cent of Dixons shares.

Kingfisher said yesterday that it did not hold any shares in Dixons.

The Department of Trade and Industry revealed yesterday that the undertakings had been made following the publication of the Monopolies and Mergers Commission report which found that the proposed merger would have operated against the public interest.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Brit Polythene	int	3	Nov 29	3	-	7.5
Bryant	fin	3.4	Nov 27	3.4	4.8	4.8
Christies Intl	int	2.3	Nov 2	2	-	8
Computer People	int	2.1	Nov 8	1.75	-	6.85
Dalgety	fin	11☆	Jan 2	10	18.15	16.5
Hawker Siddeley	int	10	Dec 31	10	-	25
Inchcape	int	4.8☆	Jan 2	4.5	-	9.25
Magnetic Mats §	fin	2.1	Oct 19	2.1	3	3
Meggitt	int	1.1	Dec 6	1.1	-	3.3
Memec	int	1.65	Nov 26	1.50	-	6
Mowlem (John)	int	5.65☆	Dec 31	5.65	-	21
Power Corp	int	1.9♣†	Nov 5	1.8	-	5.4
Ransomes	int	2.05	Nov 5	1.95	-	6.15
Richards	int	1.65	Nov 8	1.5	-	4
Second Alliance	fin	22	Oct 26	20	33	28
Sherwood §	int	1.5	Nov 5	0.75	-	4.5
Travis Perkins	int	2.5	Oct 31	2.5	-	8
United Friendly§	int	3.5	Nov 7	2.45	-	8.2

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ☆Carries scrip option. ♣Irish currency throughout.

UK COMPANY NEWS

Ransomes held to 6% rise at £7.5m

By David Owen

UNFAVOURABLE WEATHER conditions and spiralling interest costs have restricted Ransomes, the grass-cutting machinery manufacturer, to a 6 per cent interim profits advance in spite of sharply higher sales.

"The combination of the dry summer in Europe and pressure on consumer expenditure in the UK has made the first six months trading very difficult," said Mr Bob Dodsworth, chief executive.

"Neither this situation nor the difficult property markets are likely to change in the near future" he added. The shares slid 7p to 100p – their 1990 low.

All told, pre-tax profits for the six months to June 30 edged up to £7.47m (£7.02m) on turnover ahead 60 per cent at £94.69m (£59.13m). Net interest payable more than trebled to £4.82m (£1.43m).

At the operating level, profits advanced 46 per cent to £12.29m (£8.45m).

The group said that its property unit had not made any "significant disposals" in the first six months. Stripping out property, Mr Dodsworth said that operating margins were ahead of 1989 levels.

He declined, however, to detail the property division's contribution to operating profit.

Mr Dodsworth similarly declined to reveal the group's interim gearing level, stating only that "gearing is generally higher at the half-year than at the year-end."

He said that Ransomes' target remained to reduce gearing to less than 100 per cent – from 116 per cent at December 31 – during the course of the year.

The Cushman businesses acquired last August for $150m performed "in line with expectation." The acquisition, together with Ransomes £9m purchase of Westwood – a British manufacturer of garden tractors, was cleared by the Monopolies and Mergers Commission in July.

The group was hit, however, by "one of the worst seasons experienced for sales of consumer grass cutting machinery." According to Mr Dodsworth, the French market was particularly badly affected.

On a fully diluted basis, in the light of the £53m issue of convertible preference shares which part-funded last year's acquisitions, earnings per share slid some 19 per cent to 6.7p (8.3p). Undiluted, the decline was 34 per cent to 5.5p. An interim dividend of 2.05p (1.95p) is declared.

Bob Dodsworth – very difficult first six months

● COMMENT

The logic of the Cushman and Westwood deals still looks sound enough.

But the timing is beginning to appear increasingly unfortunate. It has left the group footing the bill for higher interest costs just when the squeeze on operating profit from low consumer demand and the moribund property market is at its tightest. That said, interest remains covered between two and three times, and the commercial division appears to be performing well.

If the lawns of Europe revert to a less slovenly rate of growth next season, the group's market position is now powerful enough (and its costs probably low enough) to enable it to take full advantage of the resultant resurgence in demand.

Where problems could arise, of course, is if there is a third consecutive dry summer. Assuming full-year profits of £14.8m, the prospective multiple of about 7.5 is not particularly attractive – especially as it rises to nearer 9 when calculated on an undiluted earnings basis. It is safe to assume that Mr Dodsworth will be an attentive student of the weather forecast for the foreseeable future.

GGT warning triggers fall in sector shares

By Alice Rawsthorn

GOLD GREENLEES Trott yesterday triggered a fall in share prices across the marketing services sector when it issued a profits warning because of the deterioration in the UK and US advertising markets.

GGT's shares fell by 17p to 101p on the announcement. WPP Group saw its shares slip by 26p to 437p. Shares in Aegis, the media-buying group, fell by 5p to 225p and in Lowe, the advertising agency, by 6p to 273p.

Until yesterday's profits warning GGT had been regarded as one of the stabler members of the marketing sector. Mr Mike Greenlees, joint chairman, said the advertising market in the UK and, to a lesser extent, the US had become "far less robust" than when its preliminary results were published in June. Nonetheless, GGT intends at least to maintain its interim and final dividends.

James Capel, GGT's stockbroker, has reduced its profit forecast for the present year from £7.6m to £5m. This compares with pre-tax profits of £7.7m on turnover of £199.4m last year.

The group's UK advertising agencies – the eponymous GGT in London and Bowden Dyble Hayes in Manchester – have won more than £25m of new business this year, but not enough to compensate for the reduction in expenditure by their existing clients. Mr Greenlees estimated that 60 per cent of the company's clients had cut their budgets.

In addition the London agency faces a £600,000 increase in property costs. And the group must also make a severance payment to Mr Dave Trott, one of its founders and main board directors, who was ousted as creative director of the London agency this summer.

Mr Greenlees said he expected to agree terms of a settlement with Mr Trott "within the next few days". GGT expects shortly to hear the result of its re-pitch for the Holsten Pils beer account.

The US agencies have been affected by the slowdown in the US advertising market, which is also being affected by economic uncertainty.

● Lopex, the embattled advertising group which has been hounded by bid rumours, yesterday announced the appointment of Mr Peter Thomas as its new chief executive to replace Mr John Castle, who left after a boardroom row in July.

Sherwood Computer records 46% gain

By Alan Cane

SHERWOOD COMPUTER Services continued its return to financial health, recording pre-tax profits of £850,000 in the first half of 1990, a 46 per cent increase on the interim stage of 1989.

Mr Richard Guy, chief executive, said improved profitability was a result of rationalisation which led to staff numbers falling from 750 to 450. Costs of the restructuring were written off last year.

The USM-quoted company is also benefiting from its substantial investment in industry standard open systems including the Sceptre system for Lloyds of London and Threshold for the local government housing sector with which it is working with ICL.

Mr Guy said the company's markets were not necessarily growing much but changes in technology presented possibilities for exploitation.

Sales were little changed at £12.34m. Fully diluted earnings per share were 8.7p, compared with 7.8p a year ago, and the interim dividend is doubled to 1.5p.

The company said that a proportion of the increase is designed to reduce the disparity between the interim and final dividends paid in 1989 when the company was recovering from a disastrous performance in 1988.

Some 18.9 per cent of Sherwood's stock is now held by World Software Group, based in the Netherlands.

This organisation takes minority stakes in European software and services groups with a view to encouraging collaboration.

Sherwood has already opened talkes with Volmac of the Netherlands but there are as yet no firm developments.

Christies unworried by ADT's holding

By Andrew Hill

LORD Carrington, Christies' chairman, said yesterday he was still relaxed about the 22 per cent stake in the auction house held by ADT, the car auction and electronic security company.

In the last 12 months, ADT, which reports its interim figures today, has increased its holding rapidly from below 5 per cent.

The auction house is still expanding its network of offices worldwide. That was part of the reason for a 20 per cent increase in Christies' total costs to £69.2m (£57.7m) in the first half. Mr Christopher Davidge, managing director, said the group was laying the foundations for the future of the business.

● COMMENT

Mr Michael Ashcroft knows a sound business when he sees one: high margins, high barriers to entry and – if it is not too demeaning to describe a 200-year-old auction house in such terms – a strong brand-name. But these are difficult times, even for Christies. At the top end of the market, this is a lumpy business – Dr Gachet alone realised an estimated profit of £5m for the group. The slowdown in art sales is also drawing attention to the group's costs, which grew faster than profits or turnover in the first half. At least the group is investing for the future, in continental Europe, for example, but investors will have to wait for proof that a plateau has been reached on overheads. Christies' share price is still supported by takeover speculation. Take away that prop and at least one analyst believes it could halve. Even if ADT continues to nurse its paper loss on the investment, Christies' shares are likely to come in for a battering. Second-half profits could slip from £32.6m to as little as £23m, and on a full-year forecast of £63m before tax, the share price is still nearly 12 times forecast earnings. That compares with a prospective multiple of just 5 at Sotheby's.

Christopher Davidge: laying foundations for the future — Rob Hadley

GrandMet insists on final £50m from Brent Walker

By David Churchill, Leisure Industries Correspondent

GRAND METROPOLITAN, the food, drinks and leisure group, yesterday stood by its demand that Brent Walker, the leisure and property company, should pay the £50m final instalment due for the William Hill bookmaking group by next Tuesday.

The William Hill and Mecca betting shops were bought by Brent Walker last year in a complex £685m deal.

GrandMet's uncompromising stance follows Brent Walker's decision, confirmed yesterday, to seek compensation from GrandMet for lower-than-forecast profits from William Hill in its last financial year. If the compensation move was successful it could mean that up to £160m would be due to be repaid by GrandMet.

The dispute between the two companies looks set to become a long-running legal wrangle about the terms of the agreement reached a year ago.

Last night the dispute was taking some of the heat off Brent Walker's sliding share price.

The value of the company's shares has halved over the past two months. Yesterday, however, the shares closed 4p up at 153p.

Brent Walker is due to announce its interim results on Thursday of next week.

GrandMet maintained yesterday that the issue of William Hill's lower-than-forecast profits was a separate issue from the question of paying the final instalment price on the purchase. "We are waiting to see if the money is forthcoming and, if it is not, then we will take appropriate action," GrandMet said, declining to spell out the steps planned.

GrandMet is also understood to be concerned at the way the dispute between the two companies has become public. The company has been traditionally anxious to ensure that both its acquisitions and divestments are carried out without any public problems on either side.

"We had a clause in the agreement to deal with this situation occurring and hoped that it would be sorted out by the accountants," said GrandMet.

Brent Walker and William Hill have retained Touche Ross to advise it while GrandMet is using Coopers & Lybrand.

Under the agreement last year Brent Walker acquired £245m of convertible loan stock in a new company, William Hill Group, with a £350m loan facility agreed by the banks. Brent Walker is due to buy a further £50m of convertible loan stock next week.

It has the option to convert this stock into William Hill ordinary shares at any time after the second anniversary of the acquisition.

French group to take 20% interest in ASD

By Nigel Clark

THE ACQUISITION of a 20 per cent stake in ASD by Usinor Sacilor has been given the go-ahead. County NatWest will now make tender offers at 155p for the ordinary shares and 100p for the convertible preference shares as soon as possible.

The announcement came at the same time as ASD, the UK's second largest steel distributor, reported pre-tax profits down from £4.22m to £1.02m for the six months to the end of June. It is passing the interim dividend.

Usinor, the French state-owned group and Europe's largest steel producer, made an initial approach in June, which required clearance by the European Commission and was also considered by the Office of Fair Trading, both of which have not raised objections.

A joint venture between Usinor and ASD to build a strip mill at Barking, Essex is still being considered by the EC.

Mr Ralph Oppenheimer, chairman, said that margins had declined by 2.8 per cent and the group had carried out a rationalisation programme with a number of businesses closed in the Associated Steel Distributors division.

Turnover declined 2 per cent to £106.5m (£108.56m). The interest charge increased £99,000 to £2.52m.

The tax charge was £316,000 (£1.27m) for earnings per share of 0.76p (9.4p).

Sema shows little change at £7.18m

Half-year results at Sema Group, the Anglo-French computing services company quoted in London, reflected the present difficult conditions in the software and services market. Pre-tax profits were £7.18m for the six months ended June 30, marginally up on the £7.12m recorded last year.

Earnings per share were down to 4.5p from 4.8p last year, but there is an interim dividend of 0.9p (0.8p).

Sales for the six months ended June 30 at £189.9m were 37 per cent up on last year.

Travis Perkins blames interest rates for 21% decline

By Andrew Bolger

THE CONTINUING slack state of the the housing market was illustrated yesterday by Travis Perkins, the timber, building and plumbing materials supplier, which reported a near-21 per cent drop to £13.5m in pre-tax profits for the six months to June 30.

The group, which operates mainly in southern England and the Midlands, said high interest rates continued to affect the level of demand for timber and building materials.

Housebuilding and repair and maintenance activity remained flat while investment in commercial properties was declining.

Mr Tony Travis, chairman, said: "Market conditions continue to be difficult and will remain so for some time. We are concentrating on keeping down overheads whilst positioning the business for early benefits from the upturn when this occurs."

Mr Travis said that the group was continuing to build its branch network through acquisitions. Its new central distribution warehouse for plumbing and heating in Northampton became operational in April and was improving standards in branch servicing.

Turnover fell by 3 per cent to £178.4m. The net trading margin on sales was 7 per cent, against 8 per cent in 1989. Earnings fell by 20 per cent to 9.1p, but the interim dividend is held at 2.5p.

The group had at one time expected to make £3m to £4m from property disposals in the current year, but was being held back by the flat state of the market. In the first half it took property profits of only £751,000 and does not now expect to make more than £2m from property for the whole year.

Mr Travis said about 400 jobs had been lost since Travis & Arnold merged with Sandell Perkins in October 1988. The group was now poised to benefit from the merger, but he did not see much chance of an upturn before the second quarter of next year at the earliest.

● COMMENT

The trick with spotting recovery shares is deciding when they have touched bottom. Travis Perkins has certainly come a long way down from its peak of 299p less than two years ago. Yesterday's figures were well received, with turnover and margins holding up reasonably well, and the shares closed 5p higher at 167p. Most doubts concern the rate of property disposals, but assuming a £2m contribution from that source, the company should make about £26m in the full year. That would put the shares on a multiple of 9.6, a slight premium to a very depressed sector. There seems little downside at this level and the company has nil gearing. Buyers will hope that, having led the housing market into depression, the south-east will lead the recovery. Pessimists may feel they can afford to wait a bit longer.

COMPANY NEWS IN BRIEF

ALBANY INVESTMENT Trust: Net asset value per 20p share was 94.4p at August 31 1990, against 111.43p a year before. Gross revenue for half year was £300,221 (£281,765) and net profits £215,000 (£205,000). Earnings per 20p share 2.15p (2.05p). Interim dividend 1.2p (0.8p) to reduce disparity.

GT VENTURE Investment Company: Fully diluted net asset value per share was 126.7p at June 30 1990, against 120.9p a year earlier. Gross income for year was £1.08m (£749,000) and net profits £462,000 (£377,000). Earnings per share were 1.6p (2.08p) and final dividend is 2.5p (2p).

KLEINWORT Smaller Companies Investment Trust had a net asset value of 144.7p (194.7p) per share at July 31. Revenue totalled £646,000 (£629,000) for the six-month period, and tax took £109,000 (£107,000). Interim dividend is unchanged at 1.35p from earnings of 2.49p (2.44p).

NORMAN GROUP chairman told AGM that provided Christmas trading came up to estimates, a satisfactory outcome for the year was anticipated. At Normans Superwarehouses there had been a significant improvement in net margin. Name changed to Merchant Retail Group.

OCEAN GROUP'S offer for Tees Towing has closed following acceptance of the offer from holders of 100 per cent of Tees. Total cash consideration was £9.12m and 4.6m shares were issued.

PERKINS FOOD will be introduced to the Amsterdam stock exchange on September 20, reflecting its strategy of becoming a broadly based northern European food group. The Netherlands and Germany will represent some 78 per cent of current turnover.

PILKINGTON is to merge all UK downstream insulation merchanting operations with the Pilkington insulation division. Combined sales of the enlarged division were £150m last year.

SHAW (ARTHUR) is buying Jackdaw Manufacturing group for an initial £2m in 1.19m ordinary shares, £430,000 cash and £696,000 guaranteed loan notes. Further consideration would not exceed £500,000. Jackdaw makes industrial fasteners and distributes engineering tools; pre-tax profit for year ended March 31 was £525,000, including exceptional £124,000. Net assets £1.2m.

TURNBULL SCOTT Holdings, security, shipping and property group, plans to sell to a management buy-out its last business centre in Winchester and the Molineux Hotel in Wolverhampton. Total consideration is about £2.37m. There are two purchasing companies, Frobisher Farr (Worthy Park) and Frobisher Development (Midlands), owned 50 per cent by Mr NT Wolstenholme, a Turnbull Scott director, and 50 per cent by Farr. (a company with which Mr Wolstenholme has no other connection).

WASTE MANAGEMENT and Servicemaster Partnership have reached an agreement to form a partnership combining WM's pest control business and Servicemaster's consumer service division. The partnership will be called Servicemaster Consumer Services. WM will hold about 20 per cent and Servicemaster 80 per cent of the equity.

YORKSHIRE WATER: Sir Gordon Jones, chairman, told AGM that company had made a good start in the private sector and outlook was promising. There was a capital investment programme of some £2.5bn over the next ten years.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends.

TODAY

Interims- ADT, Beaufort, Bluebird Toys, Bowthorpe, CI, Cannon Street Invs, Clarkson (Horace), Clyde Petroleum, Crests, Ferrum, Garton Engineering, Guidehouse, Iceland Frozen Foods, Joyes, LWT, London Forfaiting, Lopex, MMT, RPS, Refuge, Silentnight, Sovereign Oil & Gas, Taylor Woodrow, Telemetrix, Tesco, Trade Indemnity, Wassall.

Finals- Benchmark, CALA, Everest, FII, Intern-link Express, Mayborn, Melville, Mucklow (A&J), SWP, Stonehill, Wessex Water.

FUTURE DATES

Interims-

Antofagasta	Sep. 24
Baynes (Charles)	Sep. 20
Black (A&C)	Sep. 21
Canning	Oct. 1
Commercial Bank of London	Sep. 27
El Oro Mining & Exploration Co.	Sep. 27
Ferromet	Sep. 19
Fortnum & Mason	Sep. 21
Haden MacLellan	Sep. 21
London Atlantic	Oct. 11
Oliver	Sep. 20
Rathbone Brothers	Sep. 28
Thurgar Bardex	Sep. 27
United Newspapers	Sep. 27
Finals-	
Beazer	Sep. 27
Domestic & General	Sep. 25
Elsco	Sep. 25
Highland Distilleries	Oct. 15

COMMODITIES AND AGRICULTURE

Canada welcomes breakthrough in EC fishery deal

By Bernard Simon in Toronto

CANADA HAS welcomed a European Community decision to accept seven out of ten quota proposals for fish stocks in the north-west Atlantic as a significant breakthrough in the protracted dispute over depletion of fish resources off Canada's east coast.

Canadian satisfaction at the outcome of last week's annual meeting of the 12-member Northwest Atlantic Fisheries Organisation (Nafo) is tempered, however, by EC refusal to accept quotas on three key stocks, and by uncertainty on the enforcement of conservation measures.

Mr John Crosbie, international trade minister, called on the EC at the conclusion of the meeting in Halifax to adhere to all Nafo quota decisions and not to set higher quotas for itself, as it has in previous years.

The Canadians are especially upset that the EC alone voted against a resolution to maintain a moratorium on cod catches in the once-rich fishing area known as the Nose of the Grand Banks of Newfoundland. The Community set a quota for itself in this area last year and Spanish and Portuguese trawlers have made significant catches there during 1990.

The three quotas on which the EC abstained are 3M cod (for which Nafo has allocated an EC quota of 6,500 tonnes), 3LN redfish (no quota proposed for the EC) and 3NO witch (no quota). The Community agreed however, with limits set on some other important stocks, known as 3NO cod and 3LNO American plaice.

The Nafo meeting also set up a working group to develop detailed proposals for the improvement of fisheries surveillance and control in the Atlantic. Canada and other Nafo members are especially concerned about over-fishing by vessels which are owned by EC nationals but sail under "flags of convenience" of countries like Panama.

Ireland tries to salvage beef trade with Iran

By Kieran Cooke in Dublin

MR MICHAEL O'Kennedy, Ireland's Minister for Agriculture, has gone to Iran in the hope of securing substantial export contracts for the troubled Irish beef sector.

Earlier this year there were indications that Iran was about to purchase Irish beef valued at more than I£100m, after EC export subsidies had been taken into account.

However, Iran delayed contract signing because of worries over BSE or "mad cow disease" and wanted direct Irish ministerial assurances on the issue. And the EC had placed an embargo on such ministerial contacts following the Salman Rushdie affair.

Mr O'Kennedy is making his trip after explaining to the EC the serious difficulties being faced by the Irish beef sector, which accounts for about 7 per cent of total Irish exports.As the main annual cattle "kill" gets under way in Ireland markets have still not been found for more than 300,000 cattle to be slaughtered.

Last year Iran purchased more than 60,000 tonnes of Irish beef and was Ireland's second biggest beef market after the UK. Iraq was another important market for Irish beef.

Much of the trade with Iran and Iraq has been controlled by companies associated with Mr Larry Goodman, the Irish beef processor recently revealed to be in serious financial difficulties.

Brent crude oil prices

THE FINANCIAL Times from today will quote two prices for North Sea Brent crude oil on the forward market, both supplied by Petroleum Argus.

The Spot Market table (below) will continue to quote the second month position, which at present is the contract for November delivery. In addition it will now carry the price for dated cargoes, that is, cargoes for delivery within 15 days from the Sullum Voe terminal in the Shetlands.

The second month contract provides a good indication of oil price movements. Liquidity is generally high and it tends to be less volatile than prompt prices.

However, the price for dated cargoes provides a good indication of the ready supply of oil in the physical market. It is also used to determine the price in a large number of term contract sales based on market-related formulae. It thus heavily influences what many crude oil buyers are currently paying for cargoes.

Demand strong for Norwegian oil licences

By Karen Fossli in Oslo

NORWAY, WESTERN Europe's second biggest oil producer, after Britain, has received applications for 52 offshore blocks from 24 oil companies for the country's biggest licensing round since 1965, when 78 blocks were offered.

The 13th licensing round is considered to be Norway's most important as it is likely that fierce competition, which will lead to disappointment when awards are announced next spring, may force some oil companies to pull out of Norway.

Some 22 blocks in the Norwegian North Sea were offered, together with five in the Haltenbanken province, off the west coast of mid-Norway, and 25 in the Barents Sea.

The Oil and Energy Ministry said that interest was unusually high, with applications for shares in most of the offered blocks.

The interest was greatest for blocks in the North Sea where infrastructure is well-established, meaning less development investment would be necessary should oil and gas discoveries be made; and for blocks in the Barents Sea, where only traces of hydrocarbons have been found after four years of exploration efforts.

Interest in Haltenbanken acreage was slightly less although new oil and gas discoveries in the region have been made this year. In addition, the area is currently being developed with infrastructure to be established, including pipelines and production platforms.

Mobil Exploration Norway, the second biggest oil producer in Norway, submitted an "aggressive" application for 17 blocks in the North Sea and the Barents Sea, which it considers a high-risk, high-potential frontier area. Mobil's drilling programmes will test all the remaining prospects on its current licences in the next two to three years, but it was forced to relinquish part of its exploration budget for this year as its partner, Statoil, the Norwegian state oil company, could not keep pace with Mobil's programme.

Norske Shell said that it had submitted a "comprehensive" application in which quality took precedence over quantity in terms of the number of blocks applied for.

"For Norske Shell it is important to acquire opportunities to maintain an appropriate level of activity. . . the 13th concession round will therefore be very important to the future role of Norske Shell on the Norwegian continental shelf in the 1990s and beyond," the company said.

Tough talk and tear-gas in rural France

Even farmers who disapprove of the recent violence share the anger that lies behind it

FARMER'S VIEWPOINT

By David Richardson

TELEVISION PICTURES of sheep being ill-treated, lorryloads of them being burned alive and newspaper headlines including the phrase "lamb wars" probably persuade the casual observer that the current behaviour of French farmers is all to do with the price of lamb.

In truth, however, that is only part of the problem. The fact that truckloads of British lambs and carcasses have been attacked does of course reflect the demonstrators' anger at the unprofitability of sheep farming in France. But it is only the most visible symptom of a much wider malaise which spreads right across French agriculture.

Last Thursday I went to central France – to Nevers in the region of Niévre, famous for its Charolais cattle. The town had been chosen as the venue for a massive farmers' demonstration partly because of its location but mainly because the Mayor Pierre Bérégovoy, is also France's Minister of Finance and therefore ultimately responsible for aid or the lack of it to agriculture. The fact that President Mitterrand was once an MP for a nearby constituency was also seen as significant.

As the estimated 12,000 farmers set off on their march, waving banners, letting off firecrackers and bird scarers, I walked with them and invited some to air their grievances. A few when they realised I was an English farmer who kept sheep among other things pushed me roughly away and refused to talk.

But most were only to pleased to tell me of their plight.

The prices they were receiving for the whole range of meat products – beef and pork as well as lamb – were down on last year they told me. I tried to explain that the same situation applied in the UK.

I doubt if they believed me, in fact they appeared convinced that British farmers receive some under the counter aid which was not publicised. Beyond that they had little interest in the UK except to tell me of their land taxes, which they rightly assumed British farmers do not have to pay, and to go home and stop importing New Zealand lamb because that was the reason for my lower prices and also meant I had to export English lamb to France.

Most of the French farmers appeared even more angry, however, at the flood of cheap meat that had been coming in to the EC from newly democratised eastern Europe, where governments are desperate for hard currencies. It is of low quality and cheap and is undermining markets all over Europe they told me. "We have no protection from such imports," they said, "the EC has as many holes as a colander."

"Then the Community allocates financial aid to such countries so that they can buy food to replace that which they have sent to the West," said one irate livestock breeder. "C'est une scandale."

Inevitably the problems of BSE, the cattle brain disease, came up in conversation, together with its depressing effect on demand for beef even though it has not yet been officially identified on French farms. And then there was the drought over large areas of France for the second year running which had stopped the growth of grass and other fodder crops and seriously increased the cost of keeping livestock.

"But I thought your Minister of Agriculture had promised aid to help those with the worst drought problems," I said, referring to a £120m cash package and a £180m worth of forgiven social security payments, announced a couple of weeks ago.

That really was a red rag to a bull. Agriculture minister Henri Nallet was useless, I was told. He had promised similar aid two years ago and again last year and no-one had seen any of it yet, claimed my informants. And they went on to tell me how the ex-farm prices of sunflower seed, oilseed rape and wheat had all declined significantly over the past few years while their fixed costs had risen.

I was told that many French farmers could not even earn the national minimum wage; that the French Government and the EC were determined to drive many of them out of business; and that 30 per cent were already at the point of bankruptcy. "That is why we are here – to let the politicians know that we will not tolerate it."

At that point the main body of the march arrived at the Préfecture, the offices of the federal government in the town and therefore a focus for the farmers' anger. A group of the most militant began shaking the enormous steel rails and gates and succeeded in swaying the whole structure so violently that it seemed possible they would break it down.

Enter a contingent of CRS riot police, a thousand of whom had been sent to the town in anticipation of trouble. Paradoxically they became the target for violence. First eggs were thrown at them, then bottles of slurry, animal waste brought for the purpose, and later stones from the road and parts of traffic lights and road signs that had been demolished by the demonstrators.

The police showed commendable restraint but eventually lobbed a few tear-gas grenades among us. As far as I could see, however, they did not make a single arrest in spite of extreme provocation and in some cases bruises from the demonstrators' missiles and sticks. I could only assume they had been ordered to stay cool and avoid making a nasty situation worse.

Those farmers I was speaking to and their leaders who harangued the crowd later at a rally in the town's Parc des Expositions claimed that they had hoped for a peaceful demonstration. They also apologised for the actions of "a few extremists" who, overwhelmed by their frustration, had during previous days burned British sheep. But while they said they disapproved of such actions and would not do such things themselves, they went on to express understanding for the feelings of those who did commit them.

The meeting last Wednesday between Sir Simon Gourlay the President of the NFU of England and Wales and his counterpart in the main French farmers' organisation, the FNSEA, was clearly designed to defuse the situation between the French and the British. They jointly demanded a package of urgent aid from the EC, which included an extension of intervention buying for beef and increases in subsidies together with a range of similar measures for sheep. But Agriculture Minister Ray MacSharry gave little cause for optimism when he met on Friday with Copa, the European farmers' organisation. The situation, he is reported to have said, was outside both his control and the Community's budget.

Meanwhile the farmers back in Nevers were talking tough. They were not, they said, prepared to sit by and allow their industry to be destroyed by politicians who did not appreciate farming any more and imports from Comecon countries.

"Do you remember the Paris riots of May 1968?" one of the farm leaders asked me. Without waiting for my reply he continued: "If the French Government and the EC do not help us through this desperate crisis; if they do not ensure that we receive fair prices; if they do *not* stop unfair competition from third countries I predict that the towns and cities of France will be overrun by angry farmers fighting for survival. This moderate demonstration is only the beginning."

I think he meant it. I decided it would not be a good moment to remind him of the current Gatt negotiations in Geneva, the objective of which is to remove all subsidies and protection from world agriculture. Instead I left quietly, still wiping my eyes from the effects of the tear gas.

Inconclusive talks leave cocoa pact in limbo

By David Blackwell

THERE IS no chance for any renegotiation of an international cocoa agreement with economic clauses until debts owed under the existing agreement are cleared.

That is the view of Mr Peter Baron, the West German delegate who has chaired the International Cocoa Organisation's council for the past year, and who left the world of cocoa after 15 years at the weekend.

Mr Baron, who has now moved into the West German Agriculture Ministry's section dealing with wine, believes that the ICCO should now concentrate on making firm decisions on research and promotion. He is also convinced of the importance of maintaining the organisation as "a permanent forum to discuss international problems – this should not be underestimated."

Last week's ICCO talks can only be described as inconclusive. Mr Baron tried to get agreement on a plan to sell cocoa from the 246,000-tonne buffer stock in order to raise funds to support research work by the International Cocoa Genebank in Trinidad.

Producers opposed the idea, favouring direct contributions from the 48 member countries. But consumers were not in the mood to consider direct contributions when producer countries still owe the ICCO more than $150m.

All the council gave the genebank plan was formal support, and agreed to approach potential donor agencies for contributions to a capital fund of $16m.

The international agreement's future is secure until September 1992 – last March delegates extended the agreement until then, with no economic provisions. It is possible that it could be extended by a further year. Once the agreement is over, the buffer stock will have to be liquidated over a period of 4½ years.

The main problem facing the industry has been overproduction, and the threat of the buffer stock coming onto a heavily oversupplied market concentrated minds wonderfully last March. The ICCO last month estimated the 1989-90 surplus at 150,000 tonnes – the sixth consecutive surplus.

A paper circulating at the talks suggested that a similar surplus could continue to be produced until the 2001-2002 season. However, not much attention was devoted to the paper – issued under the auspices of the United Nations Conference on Trade and Development and the ICCO.

Mr Baron, who described the paper as "the worst economic document I have ever seen," admits that several years of surplus lie ahead, but by then the current low prices will have begun to curb production.

"There is still room for an increase in consumption. I'm not too pessimistic – the market will reach a balance in three or four year's time, maybe."

THE ANNUAL meeting of the International Coffee Organisation got under way yesterday, but not much progress is expected before head delegates from the US, the biggest consumer, and Brazil, the biggest producer, arrive next week. A Brazilian delegate said he did not expect any clarification of his country's coffee policy this week.

Guyana misses bauxite target

GUYANA'S BAUXITE production in the first half of this year was 755,360 tonnes, 31.3 per cent more than in the first half of 1989, but below the 1m-tonne target set by the industry, writes Canute James in Kingston.

According to the state-owned Guyana Mining Enterprise, metal grade bauxite production was 587,760 tonnes, 7.6 per cent more than the first half of 1989, but 25.7 per cent below the production target.

Production of calcined bauxite, at 167,600 tonnes, was 46.1 per cent more than in the corresponding period of 1989, but 23.5 per cent below the target.

Production was affected by heavy rainfall and a lack of adequate transportation, the company said. A target of 2.1m tonnes of bauxite has been set for this year, following production of 1.35m tonnes last year.

WORLD COMMODITIES PRICES

MARKET REPORT

Gold closed at $390 a fine ounce on the London bullion market yesterday — a level at which solid resistance was encountered. A convincing breach of that level would be seen as very constructive, dealers said. By midsession gold futures on Comex were holding on to early gains posted on speculative buying after Nymex crude futures hit record highs. One analyst cited rising oil prices as a barometer of increasing Mideast tensions and also noted the soft dollar. On the LME cash lead fell by over £17 to £438 a tonne. Traders were not surprised at the fall in view of the recent lacklustre performance of the market, with significant activity absent from the physical sector. Copper prices moved ahead, with sentiment supported by the tightness of nearby physical availability. Dealers said that while the Minero Peru strike was continuing, downside moves would probably be treated as buying opportunities. Aluminium edged ahead — traders said the market continued to attract regular bouts of profit taking as it advanced and they viewed this as healthy for the maintenance of the bull trend as it prevented an overbought situation developing.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$28.65-8.75	+1.00
Brent Blend (dated)	$35.10-5.20	+1.75
Brent Blend (November)	$32.20-2.30	+1.50
W.T.I. (1 pm est)	$32.12-2.16	+.985
Oil products (NWE prompt delivery per tonne CIF)		**+ or -**
Premium Gasoline	$419-421	+4
Gas Oil	$277-279	+10
Heavy Fuel Oil	$114-117	+3
Naphtha	$322-325	+15
Petroleum Argus Estimates		
Other		**+ or -**
Gold (per troy oz)♣	$390.00	+3.75
Silver (per troy oz)♣	480c	
Platinum (per troy oz)	$457.75	+0.00
Palladium (per troy oz)	$105.77	+0.07
Aluminium (free market)	$2240	+106
Copper (US Producer)	136⅞c	-1⅛
Lead (US Producer)	50.0c	
Nickel (free market)	510c	+10
Tin (Kuala Lumpur market)	15.34r	+0.10
Tin (New York)	271.0c	+1.50
Zinc (US Prime Western)	81.00c	
Cattle (live weight)†	100.60p	-2.99*
Sheep (dead weight)†	127.57p	-15.6*
Pigs (live weight)†	82.92p	+3.34*
London daily sugar (raw)	$285.0q	+2.6
London daily sugar (white)	$309.7q	-0.3
Tate and Lyle export price	£259.5	
Barley (English feed)	£114.50	
Maize (US No. 3 yellow)	£149w	
Wheat (US Dark Northern)	£94.2q	
Rubber (Oct)♥	52.25p	
Rubber (Nov)♥	52.50p	
Rubber (KL RSS No 1 Oct)	241.0m	-1.00
Coconut oil (Philippines)§	$277.5v	-2.50
Palm Oil (Malaysian)§	$285.0w	+2.50
Copra (Philippines)§	$205.0y	+10
Soyabeans (US)	£148	
Cotton "A" index	80.90c	-0.4
Wooltops (64s Super)	435p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Sep/Oct. t-Dec. u-Oct/Dec v-Oct/Nov. w-Oct z-Aug/Sep y-Nov. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR — London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Oct	258.00	254.40	260.40 254.40
Dec	245.00	255.00	246.40 246.40
Mar	238.00	235.80	240.40 236.00
May	238.50	236.00	240.40 237.00
Aug	240.00	239.00	239.00 231.00
Dec	245.00	239.00	245.00 238.00
White	**Close**	**Previous**	**High/Low**
Dec	319.0	304.0	312.7 306.7
Mar	320.0	305.0	313.7 304.7
Mar	318.0		303.0

Turnover: Raw 3392 (1483)lots of 50 tonnes. White 398 (1232)
Paris- White (FFr per tonne): Oct 1630, Dec 1610 Mar 1620, May 1617, Aug 1680

CRUDE OIL — IPE $/barrel

	Latest	Previous	High/Low
Nov	33.00	30.72	32.20 30.95
Dec	31.10	29.08	30.40 29.50
Jan	29.60	27.96	29.00 28.75
IPE Index	30.31	31.31	

Turnover: 6555 (8039)

GAS OIL — IPE $/tonne

	Latest	Previous	High/Low
Oct	270.00	262.00	271.75 260.00
Nov	268.75	261.50	271.00 263.00
Dec	267.00	260.00	268.50 263.00
Jan	262.50	254.00	262.50 257.00
Feb	249.00	244.50	253.00 245.50
Mar	239.25	234.00	241.00 237.00
Apr	228.00	222.00	227.00 227.00

Turnover 9034 (5910)lots of 100 tonnes

TEA

There were 26,325 packages on offer this week including 1,800 offshore reports the Tea Brokers' Association. There was improved and more general demand. New season's came to a stronger market. Medium and brighter liquoring Africans proved generally dearer while plain sorts met increased support. Ceylons attracted improved competition with brighter teas dearer and plainer descriptions often advancing sharply. Offshore teas met selective demand. Quotations: Quality 235p nominal, medium 120p, low medium 60p.

COCOA — London FOX £/tonne

	Close	Previous	High/Low
Sep	726	719	728 717
Dec	768	762	767 762
Mar	791	785	797 788
May	813	810	819 811
Jul	832	831	840 831
Sep	854	853	860 851
Dec	877		877 874

Turnover: 2700 (5219) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Sep 14 992.42 (1005.08) 10 day average for Sep 17 991.63 (994.96)

COFFEE — London FOX £/tonne

	Close	Previous	High/Low
Sep	593	587	580 575
Nov	615	606	612 595
Jan	621	613	622 608
Mar	620	622	622 614
May	635	638	635 629
Jul	648	654	650 648
Sep	660	669	671

Turnover: 3629 (4116) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Sep 14: Comp. daily 75.31 (74.46). 15 day average 77.18 (77.33)

POTATOES — BFE £/tonne

	Close	Previous	High/Low
Nov	86.0	86.5	84.0
Apr	130.5	132.5	131.8 130.0
May	147.0	147.5	148.5 145.5

Turnover 137 (96) lots of 40 tonnes.

SOYABEAN MEAL — BFE £/tonne

	Close	Previous	High/Low
Dec	115.00		114.00

Turnover 15 (0) lots of 20 tonnes.

FREIGHT FUTURES — BFE $10/index point

	Close	Previous	High/Low
Oct	1220	1220	1220 1215
Jan	1223	1220	1220 1215
BFI	1200	1197	

Turnover 53 (364)

GRAINS — BFE £/tonne

Wheat	Close	Previous	High/Low
Nov	113.40	113.75	113.80 113.30
Jan	117.45	117.75	117.55 117.30
Mar	120.95	121.30	121.30 121.00
May	124.50	124.85	124.60 124.50
Barley	**Close**	**Previous**	**High/Low**
Nov	112.80	113.10	112.90 112.85
Jan	116.70	117.15	116.80
Mar	120.75	120.30	121.00

Turnover: Wheat 245 (325), Barley 18 (52).
Turnover lots of 100 tonnes.

PIGS — BFE (Cash Settlement) p/kg

	Close	Previous	High/Low
Sep	108.3	108.0	105.8

Turnover 2 (10) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 28,543 lots
Cash	2200-10	2180-200	2240/2200	2235-45		
3 months	2092-4	2085-90	2112/2084	2083-8	2094-6	74,575 lots
Copper, Grade A (£ per tonne)						Total daily turnover 22,059 lots
Cash	1779-80	1743-7	1785/1710	1775-80		
3 months	1560-5	1546-7	1565/1556	1560-5	1558-8	118,971 lots
Lead (£ per tonne)						Total daily turnover 3,108 lots
Cash	438-40	455-5.5	433/432	431-3		
3 months	445-8	460-2	468/440	440-1	446-8	11,804 lots
Nickel ($ per tonne)						Total daily turnover 2,777 lots
Cash	11000-50	10750-800	11100/11050	11070-100		
3 months	10775-800	10500-25	10800/10650	10675-700	10775-825	8,031 lots
Tin ($ per tonne)						Total daily turnover 1,927 lots
Cash	5810-30	5800-15	5825	5825-30		
3 months	5830-40	5820-30	5930	5930-40	5930-5	5,525 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 7,290 lots
Cash	1578-80	1585-90	1615/1575	1590-5		
3 months	1480-5	1484-5	1520/1485	1496-502	1486-90	20,253 lots

LME Closing £/$ rate: SPOT: 1.9040 3 months: 1.8733 6 months: 1.8445 9 months: 1.8213

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	389¾-390¼	204½-205
Opening	387¾-388¼	203½-204
Morning fix	387.90	203.302
Afternoon fix	389.40	204.302
Day's high	390¼-390¾	
Day's low	387½-388	
Coins	**$ price**	**£ equivalent**
Maple leaf	399-404	209-212
Britannia	399-404	209-212
US Eagle	399-404	209-212
Angel	399-404	209-212
Krugerrand	389-392	204-206
New Sov.	92-94	48¼-49¼
Old Sov.	92-94	48¼-49¼
Noble Plat	463.20-470.60	242.90-246.75
Silver fix	**p/fine oz**	**US cts equiv**
Spot	250.70	478.65
3 months	259.85	486.20
6 months	268.70	497.40
12 months	286.35	517.45

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Nov	Jan	Nov	Jan
1950	202	120	22	96
2100	129	68	55	151
2200	79	42	115	252
Copper (Grade A)	**Calls**		**Puts**	
2800	213	151	37	101
2900	147	104	69	152
3000	95	69	118	214
Coffee	**Nov**	**Jan**	**Nov**	**Jan**
550	66	81	4	11
600	30	45	18	28
650	10	27	48	57
Cocoa	**Dec**	**Mar**	**Dec**	**Mar**
700	77	86	19	47
750	46	62	40	73
800	28	45	70	106
Brent Grade	**Nov**	**Dec**	**Nov**	**Dec**
3000		280		
3050				
3150				

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Sep	389.4	385.1	0	0
Oct	390.6	386.4	390.9	386.2
Nov	393.0	388.8	0	0
Dec	395.2	391.0	396.0	392.4
Feb	399.4	395.2	399.5	397.6
Apr	403.4	399.2	403.0	402.0
Jun	407.6	403.4	407.2	405.5
Aug	411.6	407.3	409.5	409.5
Oct	416.1	411.8	415.8	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	459.0	458.9	460.5	456.4
Jan	464.5	463.4	466.6	463.0
Apr	471.0	469.3	471.0	469.3

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Sep	476.6	475.0	478.0	476.0
Oct	477.8	476.2	0	0
Nov	481.4	478.8	0	0
Dec	485.3	483.7	487.0	483.5
Jan	487.7	486.1	0	0
Mar	495.7	494.0	497.5	494.0
May	502.8	500.8	502.5	502.5
Jul	509.8	507.9	509.4	509.0
Sep	517.4	515.5	518.0	516.0
Dec	528.3	526.4	528.0	527.5

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Sep	133.45	133.30	135.60	133.30
Oct	132.60	133.25	134.85	132.50
Nov	130.10	130.80	0	0
Dec	127.75	126.25	129.50	127.30
Jan	125.05	125.75	126.40	125.10
Mar	120.05	120.25	121.20	119.90
Apr	118.05	118.15	0	0
May	116.05	116.00	117.00	116.90
Jun	114.30	114.15	0	0
Jul	112.35	112.10	113.30	112.70

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Oct	33.55	31.76	33.10	32.65
Dec	31.08	30.13	31.13	30.75
Mar	28.25	27.78	28.70	28.20
May	27.00	26.75	27.15	26.95
Jul	26.10	26.02	26.35	26.00

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Oct	8550	8279	8625	8440
Nov	8665	8378	8678	8560
Dec	8760	8504	8804	8670
Jan	8695	8500	8800	8640
Feb	8400	8270	8450	8380
Jun	7430	7275	7450	7360

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Sep	1457	1433	0	0
Dec	1325	1302	1326	1307
Mar	1368	1342	1375	1346
May	1397	1370	1405	1378
Jul	1426	1403	1436	1424
Dec	1490	1466	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Sep	94.00	92.25	94.00	93.25
Dec	96.50	95.80	97.15	95.85
Mar	99.75	98.85	100.10	98.90
May	101.70	101.40	101.95	101.00
Jul	103.90	103.35	103.00	0
Sep	105.90	105.40	0	0
Dec	107.20	107.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	11.15	10.98	11.24	10.92
Mar	10.71	10.60	10.77	10.59
May	10.70	10.59	10.76	10.60
Jul	10.71	10.59	10.74	10.63
Oct	10.76	10.67	10.80	10.67

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Oct	72.75	73.20	73.25	72.65
Dec	71.65	71.59	72.10	71.20
Mar	72.85	72.95	73.25	72.80
May	73.35	73.70	73.65	73.30
Jul	73.86	73.90	73.90	73.66
Dec	67.98	67.75	67.98	67.75

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Sep	155.80	149.45	154.50	149.00
Nov	134.50	132.90	135.75	132.75
Jan	130.70	129.65	131.75	129.60
Mar	131.05	127.55	132.10	131.00
May	131.05	130.25	132.75	131.00
Jul	131.05	130.55	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)			
Sep 17	Sep 14	mnth ago	yr ago
1811.4	1802.6	1772.8	1994.2

DOW JONES (Base: Dec. 31 1974 = 100)				
	Sep 14	Sep 13	mnth ago	yr ago
Spot	129.07	129.24	131.16	129.48
Futures	132.29	132.15	130.45	130.86

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Sep	615/4	624/4	626/4	615/0
Nov	626/4	634/6	637/0	626/0
Jan	641/2	649/2	651/4	641/0
Mar	654/4	663/0	665/0	653/4
May	663/4	671/0	673/0	663/4
Jul	670/2	677/2	679/0	670/0
Aug	664/4	671/0	669/0	664/0
Sep	640/4	643/0	0	0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Sep	23.70	23.63	23.71	23.59
Oct	23.66	23.57	23.69	23.53
Dec	23.84	23.77	23.90	23.70
Jan	24.09	24.00	24.10	23.90
Mar	24.32	24.30	24.40	24.25
May	24.55	24.52	24.60	24.46
Jul	24.60	24.50	24.65	24.55
Aug	24.60	24.35	24.60	24.60

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Sep	185.2	185.0	185.0	181.0
Oct	183.1	185.9	186.1	181.9
Dec	186.6	189.9	190.1	185.8
Jan	188.0	191.3	190.7	187.5
Mar	190.6	193.9	194.0	190.5
May	192.1	195.1	195.3	191.6
Jul	193.1	196.1	196.0	192.5
Aug	191.5	194.5	194.0	191.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Sep	235/6	232/6	235/6	232/2
Dec	225/4	224/0	226/0	223/2
Mar	235/2	233/6	235/6	232/6
May	242/0	240/2	242/0	239/2
Jul	246/0	244/6	246/6	243/4
Sep	246/4	245/0	247/0	245/0
Dec	248/0	246/6	248/6	245/6

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Sep	261/0	257/0	261/6	256/0
Dec	276/0	273/2	277/4	271/2
Mar	290/6	287/2	291/2	286/0
May	298/4	295/0	299/0	293/0
Jul	303/4	301/6	305/2	299/6
Sep	309/0	305/0	309/0	0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	79.37	78.62	79.60	78.80
Dec	77.17	76.87	77.50	76.97
Feb	75.62	75.10	75.85	75.15
Apr	75.90	75.42	76.10	75.70
Jun	73.90	73.57	74.00	73.72
Aug	72.15	71.80	72.60	71.85
Oct	72.15	71.65	72.60	72.15

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Oct	53.00	51.87	53.35	52.50
Dec	52.35	51.67	52.90	52.00
Feb	49.25	48.75	49.65	48.90
Apr	45.90	45.57	46.27	45.60
Jun	50.36	49.92	50.50	50.00
Jul	50.37	50.00	50.40	50.00
Aug	49.00	48.60	49.00	0
Oct	43.92	43.70	44.15	43.90

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	56.66	54.65	56.65	55.10
Mar	56.62	54.62	56.62	55.00
May	57.37	55.37	57.37	55.80
Jul	57.25	55.25	57.25	55.55
Aug	53.90	51.90	53.90	0

LONDON STOCK EXCHANGE

Shares recover after a weak opening

THE UK equity market survived what promised to be a difficult session yesterday, rallying from an early test of a significant support level to edge into firm territory in the final minutes of trading. However, traders warned against over-optimism, pointing out that trading volume remained poor overall despite some modest buying from the big investment institutions.

The final reading showed the FT-SE index at 2,094.3, a gain of 0.5 on the day but still short of the 2,100 mark which has proved a significant testing area for the market both on its way up and, more recently, on its way down.

Account Dealing Dates

*First Dealings: Sep 10	Sep 24	Oct 8
Option Declarations: Sep 20	Oct 4	Oct 18
Last Dealings: Sep 21	Oct 5	Oct 19
Account Day: Oct 1	Oct 15	Oct 29

*New-time dealings may take place from 8.30 am two business days earlier.

In early trading the market fell 21 points to the FT-SE 2,073 area as it returned from a weekend featured by an almost entirely negative UK press, which warned on recessionary pressures on the UK economy. This fall took the index back to the end of August, when it traded down to 2,051.2.

Yesterday's rally was erratic and the final improvement owed much to Wall Street, which also reversed an early fall to show a gain of 2.72 Dow points in London trading hours. Seaq volume reached only 289.1m shares for the session, a feeble comparison with the 420.9m shares traded on Friday when the market reacted to the warning on profits from the chairman of ICI.

Equities were led from the futures market, where the FT-SE contract showed a discount for much of the morning before managing to re-establish a tiny premium in late trading. Company news continued to hurt the market, although some traders suggested that the heavy fall in Hawker Siddeley shares, after the announcement of the previously anticipated lower interim profits, had been overdone.

"It is as if some analysts are living on another planet," said one trader scathingly, pointing out that Hawker's poor figures had been well signposted and that, moreover, market views on the outlook for corporate profits have darkened even more since the board of the engineering group issued its warning. However, on the more positive side of the market, ICI rallied from Friday's fall and Glaxo, which reports profits this week, also performed well.

Traders commented that the institutions were "nibbling" at some sectors yesterday, as they have been over the past week or so. By never dealing above the bargain size and price quoted on the Seaq screens, institutions appear to have moved some cash into the market without attracting attention. Liquidity levels are still high, with one fund said yesterday to be an exceptional one third liquid.

Despite this potential support for the London market, most strategists expect the Footsie to test new lows, especially if there is an outbreak of actual fighting in the Gulf.

FINANCIAL TIMES STOCK INDICES

	Sept 17	Sept 14	Sept 13	Sept 12	Sept 11	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	78.31	78.27	78.56	78.61	78.52	85.88	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	87.10	87.10	87.15	86.83	86.47	96.20	92.91 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1608.1	1608.6	1632.9	1643.3	1651.0	1953.9	1968.3 (3/1)	1604.2 (23/8)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	186.5	189.0	192.3	191.2	191.4	204.1	378.5 (6/2)	187.9 (15/8)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2094.3	2093.6	2127.1	2142.3	2144.3	2373.6	2463.7 (3/1)	2075.0 (23/8)	2463.7 (3/1/90)	986.9 (23/7/84)
Ord. Div. Yield	5.91	5.76	5.81	5.76	5.73	4.09				
Earning Yld % (full)	12.39	12.17	12.27	12.17	12.09	9.87				
P/E Ratio (Net)(☆)	9.78	9.96	9.88	9.96	10.03	12.21				
SEAQ Bargns 4.45pm	16,310	18,558	15,684	18,791	16,253	21,430				
Equity Turnover (£m)†	-	619.09	589.67	790.03	586.35	1352.65				
Equity Bargains†	-	18,954	16,019	17,774	15,791	31,992				
Shares Traded (ml)†	-	324.5	305.3	346.4	299.6	654.1				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ☆ Nil 9.65

Ordinary Share Index, Hourly changes Day's High 1607.5 Day's Low 1592.4

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1598.9	1593.5	1599.7	1601.5	1600.3	1595.3	1595.3	1595.7	1608.3

FT-SE, Hourly changes Day's High 2095.9 Day's Low 2072.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2080.3	2074.1	2083.7	2087.4	2089.1	2081.9	2081.9	2080.6	2094.9

GILT EDGED ACTIVITY

Indices*	Sept 14	Sept 13
Gilt Edged Bargains	90.2	73.0
5-Day average	81.3	80.0

*SE Activity 1974.
†Excluding intra-market business & Overseas turnover.

London report and latest Share index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	861	163	+2
ASDA Group	9,400	115	+½
Abbey National	4,400	213	+2
Allied-Lyons	725	407½	+2½
Amstrad	550	38	
Anglian Water	112	230	
Argos	225	224	-2
Argyll Group	1,400	237	+2
[illegible]	150	498	+3
BAA	500	380	+4
BAT Inds.	985	634	+5
BET	255	235	+3
BICC	762	530	-11
BOC	429	472	+11
BPB Inds.	402	177	+3
BTR	2,250	313	+3
Barclays	1,200	323	
Bass	630	958	+10
Beazer	335	114	-3
Berisford Intl.	325	41	
Blue Circle	1,500	196	-1
Boots	1,800	283½	+1½
Brit. Aerospace	1,600	553	-12
British Airways	1,100	168	
British Gas	3,600	219	-2¼
British Land	1,700	343	-16
BP	8,100	365	-1¼
British Steel	11,000	121	
British Telecom	2,000	285	-2
Bunzl	1,200	65	-2
Burmah Castrol	37	507	-6
Burton	555	96	-2
Cable & Wire.	2,000	449	-16
Cadbury	375	324	+3
Calor Group	25	235	
Carlton Comms.	371	535	+1
Coats Viyella	1,100	99	-1
Comm. Union	582	462	
Cookson	846	160½	-½

	Volume 000's	Closing Price	Day's change
Courtaulds	734	305	-6
Dalgety	1,700	355	
Dixons	1,100	131	+2
ECC Group	235	329	+3
Enterprise Oil	863	540	-2
FKI	1,200	47	-3
Ferranti	1,300	22	
Fisons	1,500	359	+5
Gen. Accident	728	453	+3
General Elect.	1,500	178	+1
Glaxo	1,800	729	+15
Glynwed Intl.	560	220	-8
Granada	205	150	-2
Grand Met.	1,600	567	+3
GUS A	129	969	+4
GRE	1,600	184	+6
GKN	635	323	-5
Guinness	762	885	+8
Hammerson 'A'	27	567	-6
Hanson	8,700	204½	+½
Hanson Warrants	917	41	
Harrisons Crosfield	611	135	-1
Hawker Sidd.	1,100	429	-44
Hillsdown	851	235	+4
IMI	192	209	-4
ICI	1,300	842	+13
Inchcape	1,200	221	-8
Kingfisher	2,100	307	-2
Ladbroke	1,300	264	+3
Land Securities	2,000	475	-5
Laporte	177	860	-5
Legal & General	900	376	
Lloyds Abbey	567	320	+8
Lloyds Bank	1,100	258	+1
LASMO	980	476	-3
Lonrho	1,100	344	
Lucas	2,100	135	-8
MB Group	482	166	-12
MEPC	522	436	-4

	Volume 000's	Closing Price	Day's change
Manpower	547	59	-½
Marks & Spencer	3,300	223	+1
Maxwell Comms.	542	165	-1
Midland Bank	1,700	220	+2
NatWest Bank	1,800	264	+7
Next	4,000	34½	-½
North West Water	589	224	+1
Northern Foods	665	333	+1
Northumbrian Water	39	230	-½
Pearson	173	681	-1
P & O	859	505	-4
Pilkington	622	165	-1
Polly Peck Intl.	2,200	246	+1
Prudential	2,300	205	+2½
RHM	1,100	305	+5
RMC	733	495	-6
RTZ	2,500	425	-6
Racal	2,100	148	-7
Racal Telecom	989	235	-11
Rank Org.	1,100	550	-8
Reckitt & Colman	314	1205	+11
Redland	604	469	-6
Reed Intl.	1,100	376	-4
Reuters	674	810	-17
Rolls Royce	3,300	151	+8
Rothmans	217	661	+1
Ryl Bk Scotland	687	142	-1
Royal Insurance	1,100	365	+5
STC	1,000	258	-3
Saatchi	391	48	-1
Sainsbury	2,000	304	+2
Scottish & New.	243	342	+6
Sears	2,400	61	-2
Sedgwick	581	185	-4
Severn Trent Water	140	217	+2
Shell Transport	4,300	487	-4
Siebe	216	364	-16
Slough Ests	612	278	-4
Smith (W H) A	238	324	-2

	Volume 000's	Closing Price	Day's change
Smith & Nephew	1,200	95½	-½
SmKl Beecham	1,400	547	+6
SmKl Beecham Units	31	2465	+20
Smiths Inds.	605	197	-3
South West Water	41	231	+2
Southern Water	325	215	+5
Standard Chartd.	242	363	+6
Storehouse	2,800	130	+2
Sun Alliance	1,730	278	+3
Sun Life	51	1063	-10
T&N	974	155	-1
TI Group	534	412	-9
TSB	2,300	121	-2
Tarmac	4,500	194	-7
Tate & Lyle	321	244	-2
Taylor Woodrow	727	201	-2
Tesco	1,900	229	+3
Thames Water	214	229	+1
THORN EMI	376	612	-4
Trafalgar House	1,200	208	-1
Trusthouse Forte	1,100	232½	+3½
Ultramar	1,300	355	-6
Unigate	117	289	+3
Unilever	357	615	-3
United Biscuits	387	321	+2
Utd. Newspapers	232	295	-4
Water Package Uts.	2	2227	+6
Wellcome	222	497	+6
Welsh Water	460	246	
Wessex Water	20	282	
Whitbread 'A'	402	434	+5
Wiggins Teape	685	185	-1
Williams Hldgs.	471	309	-6
Willis Faber	359	305	-3
Wimpey	107	173	+1
Yorkshire Water	149	239	-1

Hawker shares tumble

ANALYSTS downgraded their end-of-year forecasts for Hawker Siddeley for the second time in two months, and the shares fell to their lowest since October 1987 as the company announced a drop in profits and made gloomy predictions for the future. Half-year profits were down to £66.6m from £93.2m and the share price plummeted 44p to 429p on a turnover of 1.1m.

BZW had downgraded for the full year from £210m to £175m in July when Hawker Siddeley announced £27.5m in provisions for its power station sector and an anticipated 10 per cent drop in profits.

Securities houses said the July predictions were still too optimistic. Yesterday BZW moved its estimate lower to £165m and said it was "too early to buy" as the company announced that difficult world trading conditions were likely to persist or even deteriorate further in the second half of this year.

Mr Miles Saltiel of Hoare Govett had been reckoning on profits of £162m - at the lower end of the forecast range, which ran between £160m and £180m - but he downgraded to £157m. Kleinwort Benson would not comment on its previous estimate but said it had downgraded to £168m.

GrandMet steady

Grand Metropolitan recovered from a week start in the wake of the disclosure that Brent Walker is seeking compensation for an alleged shortfall in profits at companies it bought last year.

The market was reassured by GrandMet's defence against the allegations that profits at William Hill and Mecca betting shop chains were "substantially" below levels stated at the time of their £685m sale. The unpaid consideration of £50m remained due on September 25 and GrandMet said it would "take appropriate legal action to protect its position."

GrandMet bounced from the day's low of 554p to close at 567p, a net improvement of 3, on steady trading. Brent Walker retreated from its session high of 156p to end at 153p, up 4 on the day. Traders said there was still concern over what might be revealed by Brent with its interim results, due on September 27.

Mowlem higher

There was widespread relief in the building sector with interim results from John Mowlem, the construction group. Profits came out at £18m, which is 20 per cent down on last year's £22.5m, but the shares, brushing aside the recent trend in the sector, responded positively.

The results came in at the lower end of the range of forecasts, but analysts were reassured by the accompanying statement and the shares attracted good support, moving up 5 to 257p. Sir Philip Beck, the chairman, said he was confident the company would achieve satisfactory full year figures.

Building sector analysts said they would probably edge down their full year forecasts from around the £52m level to just below £50m.

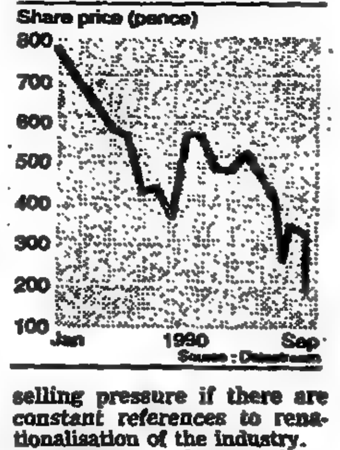
International stocks had a mixed day, largely reflecting technical adjustments after sharp movements last week. Reuters lost 17 to 810p, but ICI added 13 at 842p and Glaxo climbed 15 to 729p.

Overseas trader Inchcape weakened after revealing interim profits 5 per cent higher at £92.3m. Sentiment was hurt by the company's statement that it "is currently faced with more difficult conditions in some markets." BZW edged its current year profits forecast £2¼m higher to £185m but trimmed the 1991 estimate by £5m to £197m. The shares lost 10 at one point before finishing at 221p, down 8 on the day. Volume was a busy 1.2m shares.

Water stocks continued to perform well against the wider market, sustained by their defensive qualities. But there was slight concern that the forthcoming Labour Party Conference might prompt some selling pressure if there are constant references to renationalisation of the industry.

Dan-Air owner Davies & Newman fell 145p to 190p yesterday after offering to sell its engineering operation, which employs 1,625 people. Bid speculation has led to erratic movements in the shares since the company said in May that it was seeking a partner. Virgin Atlantic and British Midland each have stakes of more than 3 per cent, while the family of Mr Fred Newman, the chairman, controls more than 60 per cent. Davies & Newman is continuing with "the broader review of the company's business."

Davies & Newman



Preliminary figures from Bryant Group, the housebuilder, once more showed the damage wrought in the housebuilding sector by the prolonged period of high interest rates. Bryant's profits more than halved from £51.4m to £20.1m, with the company taking a £9m provision on its land bank and a £3m provision on commercial property. Ms Krystyna Brzeskwinski at Hoare Govett pencilled in a £23.5m forecast for next year.

Travis Perkins, the building supplies retailer, moved up 5 to 167p, with dealers relieved that interim profits, £13.5m against £17m, were not worse.

The rest of the building sector remained under moderate pressure. In the leaders, Tarmac attracted heavier than usual turnover, 4.5m shares, and lost 7 more to 194p, with dealers becoming increasingly nervous about the forthcoming interim figures scheduled for September 25.

Taylor Woodrow, reporting interims this morning - BZW is going for £40m, against £43.2m, and Hoare Govett for £39m - eased 2 to 201p.

In the second liners, Evered came under more persistent selling pressure and fell 5 more to 85p.

Another housebuilder, Countryside Properties, gave up 4 to 99p, but the reappearance of US buying interest sustained George Wimpey, which edged higher to 174p.

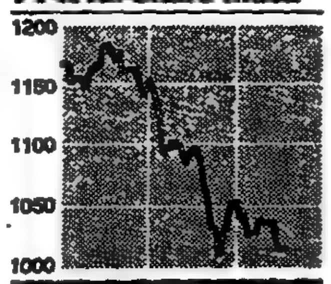
Advertising agency Gold Greenlees Trott warned that current year profits would fall short of the market's expectations. It said that since June, when it revealed preliminary results, conditions for advertising agencies in the UK and the US had deteriorated. GGT fell 17 to 101p, while WPP lost 26 to 485p in sympathy.

Christie International posted a 17 per cent rise in interim profits to £40m, but the company said it expected "an easing in the group's sales in the short term, and it is unlikely that the outcome for the second half will exceed last year's record." The company's broker S.G. Warburg cut its forecast by £8m to £64m. The shares recovered from a fall of 10 to close just a penny lower on the day at 257p.

Rank Organisation continued to suffer from last week's downgradings. The shares bottomed at 546p before closing at 550p, down 8 on the day.

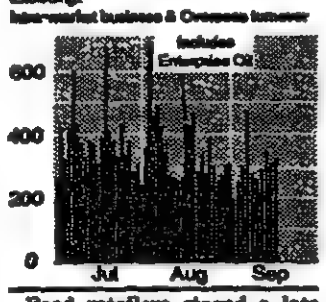
Yorkshire Radio jumped 22 to 166p on news that Metro Radio had increased its takeover offer for the company to £15.6m. The new offer is one Metro share and 15p cash for each Yorkshire. Metro eased 2 to 151p. Both companies are quoted on the USM.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: Intra-market business & Overseas turnover



Food retailers staged a late run as analysts publicised their optimism over Tesco's interims due tomorrow. They said sales and margins were strong and the shares, which had been firm all day, added 2 in the last hour of trading to close at 229p, a net improvement of 3. Sainsbury and Argyll performed similarly, each turning a fall of a penny into a net gain of 2 to 304p and 237p respectively by the close.

Trading in Asda continued to be busy in the wake of the sale at the start of the month of the 5.45 per cent stake held by the Canadian Belzberg brothers. Turnover yesterday reached 9.4m and the shares edged up ½ to 115p.

News that Storehouse is to sell UK furniture retailer Heal's and also French children's wear business Jacadi helped the stock firm 2 to 130p. Turnover was a strong 2.9m.

The continuation of a buy-in programme from GUS pushed the shares 4 better to 969p. GUS said it had bought 150,000 for 970p each.

The clearing banks were well supported towards the close, with NatWest 7 higher at 264p.

But the merchant banks with substantial stock market trading activities were persistently sold. Kleinwort Benson, suffering from the costs of financing its purchase of the near 30 per cent stake in Premier previously held by Burmah-Castrol, dropped 9 to 293p. S.G. Warburg, which has a substantial marketmaking presence in the London equity market and is being hurt by the sharp contraction in corporate activity, lost 8 to 317p.

The top quality life stocks performed well, Legal & General edging ahead to 376p and Prudential 3 to 205½p. United Friendly held at 290p, sustained by the good dividend and despite the lower profits, which in common with other insurance groups, were hit by the storms in the UK during January and February and also by increased household and motor claims.

Cable and Wireless fell sharply, closing 16 down at 449p on 2m. Specialists said the shares were upset by worries over trends in currencies and that they had recently outperformed the market.

A profits downgrade by County NatWest — "to take into account evidence of lower subscriber growth rates at Vodafone and the impact of a slowing economy," upset Racal Electronics, which fell 7 to 148p, having equalled the year's low of 147p earlier in the session. County trimmed £10m from their current year forecast to £280m, and £20m from their 1991/2 forecast to £360m. Racal Telecom fell 11 to 235p.

Memec added 6 to 161p, boosted by the 25 per cent profits improvement and the increased interim.

The oil share market was described as "disappointing" by one dealer, who said the market had ignored the latest upsurge in crude oil prices. November Brent advanced $1.60 to $31.95 a barrel. BP eased 1¼ to 365p with 8.1m shares traded, while Shell slipped 4 more to 487p on 4.3m. British Gas was 2¼ off at 219p on 5.8m.

Sentiment over Hawker Siddeley's profits warning hit engineering issues. BZW said the news had been "the last nail in the coffin" for shares already hurt by the weakness in BTR and the downgrading of Rolls-Royce. GKN lost 5 to 323p, IMI fell 4 to 209p, TI dropped 9 to 212p and Vickers was knocked back 5 to 212p.

British Aerospace fell 12 to 553p following news that Saudi Arabia planned to buy US fighter aircraft as part of a £10.5bn arms spree in place of a provisional deal with BAe to buy 48 UK-built Tornados.

Ransomes, the maker of grass-cutting machinery, lost 7 to 100p on a negative trading statement. The company announced profits of £7.5m, up from £7m, but said that the combination of the dry summer in Europe and pressure on consumer expenditure in the UK had made the first six-months' trading very difficult. Neither this nor the troubled property markets were likely to change in the near future.

The market was unimpressed by a rise of only £13,000 to £12.2m in half-year profits for Meggitt and refused to be swayed by the directors' statement that the medium-term prospects were encouraging. The shares declined 3¼ to 65p and BZW cut its end-of-year forecast from £27.5m to £25m.

■ Other Market statistics, including the FT-Actuaries share index, Page 30

NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (2). BRITISH FUNDS (1) OILS (1).
NEW LOWS (347). AMERICANS (5) CANADIANS (10) BANKS (21) BREWERS (3) BUILDINGS (30) CHEMICALS (10) STORES (3) ELECTRICALS (21) ENGINEERING (26) FOODS (6) HOTELS (2) INDUSTRIALS (71) AAH, Assoc. Brit. Ports, Assoc. Nursing Services, Avon Rubber, BBA, Do. 6.7pc Pf., BSS, BTR, Do. Warrants, Do. Warrants 1992/93, Barratt (Henry), Bridgend, Bricion, Brit. Steel, Brompton Hldgs., Brown & Tawse, Burndene, CH Inds., Charter Cons., Christies Intl., Clayhithe, Computer People, Cookson, Courtney Pope, Creata, Davis (Godfrey), Dean & Bowes, Dobson Park, Doctus, EPG, Electrolux, Elsco, Erskine House 7¼pc Pf., Glaves, Granada, Do. 7½pc Cv., Hesson, Do. Warrants, Hartlons & Crosfield, Hawthorn Leslie, Hughes (H.T.), ISA Intl., Jourdan (T), Kershaw (A), Kleen-E-Ze, Low & Bonar, MB, Do. 7¼pc Pf., Mayborn, Norfolk House, Pentland, Pilkington Warrants, Plastiseal, Rank Org., Rauma-Repola, Securicor "A", Security Services, Sidlaw, Sonic, Stormgard, Tomkins, Trafalgar House, Walker Greenbank, Wassall, Waterman Partnership, Wilkes (J), Williams, Wolseley, Wyndham, YRM, Yale & Valor, INSURANCE (8) LEISURE (10) MOTORS (7) NEWSPAPERS (3) PAPERS (10) PROPERTY (20) SHOES (1) SOUTH AFRICANS (1) TEXTILES (6) TRANSPORT (6) TRUSTS (47) OILS (3) OVERSEAS TRADERS (3) MINES (3).

APPOINTMENTS

Accountancy firm names chairman

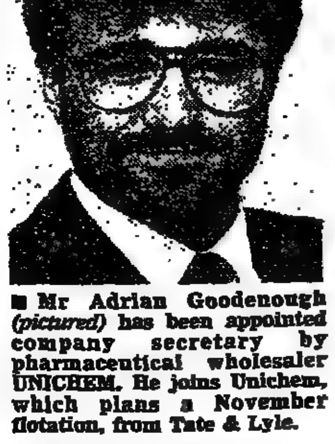
■ KPMG, the world's largest accounting and consulting firm, has appointed Mr Jim Butler, currently senior partner of the firm's UK practice, as its new chairman from January 1.

He takes over as chairman of the KPMG executive committee from Mr Larry Horner (of the US practice), whose term of office ends on December 31.

A new post of chief executive and deputy chairman of KPMG will go to Mr Johan Steenmeijer, currently senior partner of KPMG's Netherlands practice. He takes up his position on November 1.

■ BANCA SERFIN SNC of Mexico has appointed Mr George M. Gunson as general manager of the London branch and vice president for Europe and the Middle East in succession to Mr Marcos Mendoza Mariscal who has been appointed senior vice president with responsibility for foreign branches at head office. Mr Roy F. Brinsden has retired and Mr Mike Walker has succeeded him as manager, treasury.

■ MELVILLE STREET INVESTMENTS, the Edinburgh-based venture and development capital company, has appointed Mr Eric F. Sanderson, chief executive of The British Linen Bank, Edinburgh, as a director. Mr D. Bruce Pattullo has resigned as a director of Melville Street Investments due to his increasing commitments as group chief executive and a deputy governor of Bank of Scotland.



■ Mr Adrian Goodenough (pictured) has been appointed company secretary by pharmaceutical wholesaler UNICHEM. He joins Unichem, which plans a November flotation, from Tate & Lyle.

■ Mr Geoff Rawson has been appointed group financial director of LITCHFIELD GROUP, Derby. He was finance director of APV Baker.

■ Dr Ron Shakeshaft has been appointed group managing director of the wholly-owned subsidiary of Bowater. BOWATER WINDOWS, the European window company whose UK subsidiaries include Halo, Staybrite, Zenith, Sparplas Zenith and Bowater Projects.

■ Mr Julian Pycraft has been made chief executive of MALET SECURITIES. Malet Securities specialises in structuring asset backed investment opportunities in Eastern Europe.

■ Mr Michael Johnston (pictured) has been appointed managing director of LEE SPRING, the UK subsidiary of Lee Spring Corp, New York, an American spring manufacturer. Previously Mr Johnston provided management services for the company.

■ Ms Christian Sidebottom, formerly marketing director of Denby Potteries, has been chosen as PHONEPOINT's new marketing director.

■ Mr Grant Sessions has become assistant general manager (banking) of BANCO SANTANDER, London. He was corporate banking manager.

■ Professor Andrew S. Goudie has been appointed as a part-time non-executive member of the board of NUCLEAR ELECTRIC. He is professor of geography at Oxford University.

■ Mr Peter Whittington, formerly financial controller, has been promoted to general manager and financial director at CALEDONIAN CABLES.

■ At TOOTAL GROUP Mr David Hardy has become a non-executive director. Mr Hardy was until very recently executive chairman of Globe Investment Trust and is currently chairman of London Docklands Development Corporation, MGM Assurance and Buckingham International.

■ HEWDEN STUART CRANE HIRE has appointed Mr David Lane as a director. He was regional manager, responsible for the company's Walsall and Gloucester depots.

■ At BIOCOMPATIBLES Dr Stephen Charles has been made research and development director. He was previously at Amersham International.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Five to Fifteen Years

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Over Fifteen Years

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Undated

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BRITISH FUNDS—Contd

Index-Linked

1990 High	1990 Low	Stock	Price £	+ or -	Yield (1)	Yield (2)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for January 1990: 119.5 and for August 1990: 128.1.

INT. BANK AND O'SEAS

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CORPORATION LOANS

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COMMONWEALTH & AFRICAN LOANS

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LOANS

Building Societies

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Public Board and Ind.

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FOREIGN BONDS & RAILS

1990 High	1990 Low	Stock	Price £	+ or -	Div %	Red. Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMERICANS

1990 High	1990 Low	Stock	Price £	+ or -	Div Gross	Cvr	Yld Gr's
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMERICANS—Contd

1990 High	1990 Low	Stock	Price £	+ or -	Div Gross	Cvr	Yld Gr's
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIANS

1990 High	1990 Low	Stock	Price £	+ or -	Div Gross	Cvr	Yld Gr's
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

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BANKS, HP & LEASING

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
£13⅛	£9½	ABN Amro Fl5	£10⅛	–⅛	[illegible]	[illegible]	[illegible]	[illegible]
303	189	ANZ SA1	189	–4	44c	1.4	10.0	7.1
229	172	Abbey National 10p	213	+2	5.7	4.3	3.6	8.6
*274	144	Allied Irish Ord	153	–3	Q40%	3.3	5.9	6.9
		For Algemene see ABN Amro						
85	52	Anglo Irish	54	+2	†Q11.7%	2.7	7.8	7.8
93	65	Ansbacher (H.) 1p	65	–2	2.5	1.3	5.1	18.7
£71⅛	£39⅞	Bancaire Cie Fr100	£39⅞	–⅛	Q12⅛%	–	3.3	–
£22⅛	£15⅛	Banco Bilbao V12	£16⅛	.....	Q49.1%	2.7	4.8	11.4
286	149	Bank Ireland Ir£1	152	–1	Q14.7%	2.9	8.7	5.3
£19½	£18	Bank Leumi	£19½	.....	–	–	–	–
350	320	Bank Leumi (U.K.)	350	.....	†15.0	–	5.7	–
125	104	Bank Scotland	109	+1	4.55	3.3	5.6	7.2
100¼	83¼	Do. 9¼pc Irrd Pf	95¼	–½	9¼%	–	12.9	–
54	39	Bank of Wales	44	.....	2.8	0.8	8.5	(21.1)
428	319	Barclays £1	323	.....	†h19.57	3.5	8.1	4.5
22	12	Benchmark 20p	12	.....	1.63	1.0	18.1	6.9
335	275	Brown Shipley £1	275	–2	12.0	2.2	5.8	8.9
*435	319	Cater Allen £1	319	–5	N24.5	–	10.2	–
179	74	Chancery	75	–2	9.0	2.7	16.0	3.0
£23¼	£16¼	Commerzbk DM10	£17¼	–⅛	Q18%	–	5.6	–
£13⅛	675	Dai Ichi KBk Y50	683	–45	Q17%	●	0.5	●
£31⅞	£21⅛	Deutsche Bk DM50	£218	–5	Q28%	–	2.2	–
£20⅜	£15⅛	Espirito Santo	£15⅛	–⅛	Q75c	5.1	2.6	7.4
253	172	First Nat. Fin. 10p	176	–4	13.0	2.1	9.8	6.1
121	88	FNFC 6.3pc Cv. Pf	98	–1	6.3%	–	9.3	–
£13⅛	800	Fuji Bank Y50	863	+33	Q17%	●	0.4	●
325	262	Gerrard & National	279	–2	19.0	–	9.1	–
154	112	Guinness Mahon 10p	112	–1	2.1	–	2.5	–
328	194	Hambros 20p	211	+3	11.5	–	7.3	–

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

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MOTORS, AIRCRAFT TRADES — Contd

Components

1990 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
458	420	Abbey Panels	453	—	3.5	10.8	1.0	12.0
225	163	Airline Streamlines	163	—	6.0	3.9	4.9	7.0
190	145	Bostrom 5p	170	—	5.75	3.1	4.5	7.7
266	188	Dowty 50p	193	−4	9.0	2.1	6.2	9.3
239	132	FR Group	240	—	6.37	3.2	6.1	6.7
135	55	Kwik-Fit Hldgs. 10p	69	+3	2.4	1.7	4.6	17.3
179	121	Lucas Inds.	126	−3	‡6.25	3.0	6.6	5.7
44	18	Do. Warrants	18½	−½	—	—	—	—
80	43	Mid-States 10p	44	—	‡20.75	—	1.6	54.0

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY — Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST — Contd

INVESTMENT TRUST — Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES — Contd

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1650 per annum for each security.

FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
[illegible]

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
[illegible]

TIME
[illegible]

HISTORIC PRICING
[illegible]

FORWARD PRICING
[illegible]

SCHEME PARTICULARS AND REPORTS
[illegible]

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Target Trust Mngrs Ltd (1600)F

Templeton Unit Trust Managers Ltd (1200)F

Thornhill Unit Trust Mngrs Ltd

Thornton Unit Managers Ltd (1000)F

Three Counties Asset Mngmt Ltd (1450)F

Timberlake Trust Mngrs Ltd (0900)F

Touche Remnant Unit Tst Mngt Ltd (1600)F

Trades Union Unit Tst Mngrs (1200)H

Triton Fd Mngrs. Ltd. (1000)H

Tyndall Unit Tst Mngs Ltd (1600)F

UK Unit Trust Managers Ltd (0905)F

UTAM Ltd (1300)F

United Charities Unit Trusts (1000)H

Wardley Unit Tst Mngrs Ltd (1300)F

Waverley Unit Tst Mngmt Ltd (1000)F

Wessex Asset Management (1330)F

Whittingdale Unit Tst Mngmt Ltd

Willbro Financial Services Ltd (0905)F

Wright Seligman Fund Mngrs Ltd (1700)F

The Yorkshire Unit Tst Mngrs Ltd (1100)F

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

Cent. Bd. of Fin. of Church of England

Charities Official Inv Fd

Edinburgh Fund Mngrs PLC

Fidelity Investment Services Ltd

Robert Fleming Asset Mngmt Ltd

Foreign & Colonial Pens Mngt Ltd

Henderson Unit Trust Management Ltd

Lazard Investors Ltd

Local Authorities Mutual Invest. Tst.

M & G Securities Ltd

MIM Ltd

Morgan Grenfell Unit Trust Managers Ltd

Murray Johnstone UT Mngmt

Phillips & Drew Fund Management Ltd

NM Rothschild Asset Management Ltd

J. Rothschild Fund Managers Ltd

Stewart Ivory & Co Ltd

Thornton Unit Managers Ltd

Touche Remnant Unit Tst Mngt Ltd

INSURANCES

AA Friendly Society

Abbey Life Assurance Co Ltd

Acorn Life Assurance Ltd

Albion Life Assurance Co Ltd

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

Ambassador Life Assce. Co. Ltd

American Life Insurance Co UK

Avon Insurance Plc

Barclays Life Assur. Co Ltd

Black Horse Life Ass. Co Ltd

Britannia Life Ltd

CCL Assurance Ltd

Canada Life Group

Cannon Assurance Ltd

Citicorp British National

City of Edinburgh Life Assurance

City of Westminster Assurance

Clerical Medical/Fidelity International

Clerical Medical Investments Group

Clerical Medical Managed Funds Ltd

Colonial Mutual Group

Combined Insurance Co of America

Commercial Union Group

Cornhill Insurance PLC

Crown Financial Management Ltd

Crusader Insurance Plc

Eagle Star Insurance Co Ltd

Eagle Star Insur./Midland Assur.

Economic Insurance Company Ltd

Equitable Life Assurance Society

Equity & Law

Family Assurance Society

Friends Provident

GT Unit Managers Ltd

General Accident

General Portfolio Life Insce Plc

Assicurazioni GENERALI SpA

Growth & Sec. Life Assce. Soc. Ltd

Gresham Unit Assurance Ltd

Guardian Royal Exchange

Hearts of Oak Insurance Group

Henderson Administration

Hill Samuel Life Assce. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Imperial Life Assurance Co Ltd

Irish Life Assurance Co Plc

The L&G Group

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General (Unit Assur) Ltd

Legal & General (Unit Pensions) Ltd

Liberty Life Assurance Co Ltd

Lifetime Assurance Co Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group

M & G Life and M & G Pensions

Manchester Unity Assurance

ManuLife Group PLC

Merchant Investors Assurance Co Ltd

Mercury Life Assurance Co Ltd

Midland Life Limited

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

NM Life Assurance Ltd

N & P Life Assurance Ltd

National Financial Management Corp PLC

National Life

National Provident Institution

Continued on next page

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

	Bid Price	Offer Price	+ or −	Yield Gross
Norwich Union Asset Management Ltd				
PO Box 124, Norwich NR1 1JS 0603 683986				
NUAM Funds				
Managed Fund	60.7	63.9	−0.7	—
Stock Market Mngd Fund	57.6	60.6	−0.9	—
Equity Fund	64.6	68.0	−0.8	—
International Fund	51.3	54.0	−1.1	—
European Fund	63.2	66.5	−1.2	—
North American Fund	49.9	52.5	−1.0	—
Pacific Fund	54.2	57.1	−1.4	—
Property Fund	87.0	91.6	.....	—
Fixed Interest Fund	51.2	53.9	.....	—
Index Linked Sec Fund	57.7	60.7	−0.1	—
Deposit Fund	65.0	68.5	.....	—
NUAM Retirement Plans				
Mixed Fund	65.7	69.2	−0.8	—
UK Ordinary Share Fd	74.3	78.2	−1.0	—
International Fund	55.8	58.7	−1.2	—
Property Fund	85.2	89.7	.....	—
Fixed Interest Fund	60.7	63.9	.....	—
Index Linked Sec Fund	60.8	64.0	−0.1	—
Deposit Fund	75.1	79.1	+0.1	—
NUAM ORP				
Managed Fund	859.2	904.5	−9.4	—
Equity Fund	1780.9	1874.7	−19.6	—
International Fund	135.5	142.7	−2.8	—
Property Fund	550.6	579.6	+0.3	—
Fixed Interest Fund	383.4	403.6	−0.1	—
Index Linked Sec Fund	58.7	61.8	.....	—
Deposit Fund	267.4	281.5	+0.2	—
Norwich Union Life Insurance Soc.				
Surrey Street, Norwich NR1 3NG 0603 622200				
Unitised Life				
With Profits Fd	104.55	110.05	+0.09	—
Managed Fd	82.57	86.92	−0.99	—
UK Ord Share Fd	84.95	89.42	−0.99	—
International Fd	75.98	79.98	−1.59	—
European Fd	87.57	92.18	−1.71	—

	Bid Price	Offer Price	+ or −	Yield Gross
Sun Alliance International Life				
PO Box 77, New St, St Peter Port, Guernsey 0481 714108				
North American Equity $	$8.14	8.76	.....	—
Pacific Equity $	$7.49	8.07	.....	—
Intl Currency $	$4.24	4.56	.....	—
Intl Bond Fund $	$6.59	7.10	.....	—
Gilt Fund £	£3.85	4.15	.....	—
US Dollar Mngd Fd $	$1.64	1.77	.....	—
Stlg Managed Fd £	£1.04	1.12	.....	—
Target International Group				
1 rue Emile Bian, Luxembourg Tlx 2809 Tel 4050751				

	Bid Price	Offer Price	+ or −	Yield Gross
J. D. Ward Financial Services Ltd				
9 Kingsway, London, WC2 B6XF. 01-836 4321				
Target Mngd Bond	187.4	197.3	−1.5	—
Target Mngd Pension	115.1	121.2	−0.8	—
Albany Life Acc	171.8	180.8	.....	—
Albany Pens Acc	213.9	225.1	.....	—

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

OFFSHORE INSURANCES

MANAGEMENT SERVICES

IRELAND

ISLE OF MAN

GUERNSEY (REGULATED)

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	+ or –	Yield Grss
Arab Bank Fund Managers (Guernsey) Ltd				
ABL International Fund Ltd				
US Dollar Money	$10 25	10 25		–
Managed Currency	$10 27	10 28		–
International Bond	$10 13	10.16		–
Baring Int Fund Managers Guernsey Ltd				
Mngd Portfolio (Dllr)	$10 13	10 76	–0 05	–
Mngd Portfolio (Stlg)	£3 91	4 21	–0 04	–
Baring Currency Fund Ltd				
US Dollar		$14 41		–
Sterling		£17 34		–
Deutschemark		DM37 64	+0 01	–
Japanese Yen		Y2 765	+0 02	–
Managed	$40.10	42.10	+0.35	–
Dantrust Management (Guernsey) Ltd				
Dantrust Limited	DM114 40	114 70		–
Dumenil Asset Management (Guernsey) Ltd				
Dumenil Enterprise Fund Ltd				
PCFC Selective Grwth Fd	£1.0566	1 1106		–
Fipart-Conseil Fund Mngrs (Guernsey) Ltd				
Hauteville G & B Fd.	SFr7 95	8 03		2.85
John Govett Mngmnt International Ltd				
Govett High Inc Gilt	£0 3363	0 3584	+0 005	14.51
Govett Far East Inv	$0 947	1 012	–0 019	–
Energy & Resources	$0 747	0 798	+0 003	–
Hambros Fund Managers (CI) Ltd				
Japanese OTC	[illegible]	10 217		–
Havelet Throgmorton Mngmt Ltd				
Intl Inv-Stlg High Inc.	£9 740	10 274		10 09
Intl Inv-Intl High Inc.	$48 111	[illegible]		8.54
Henderson Admin. (Guernsey)				
Prime Res Prop/Inc	£0 908	–		
Balanced Grth $ Prtflo	$1 918	2 065	–0 005	–
Balanced Grth £ Prtflo	£1 106	1 188	–0 012	–
Select Mkts $ Prtflo	$1 928	2 083	+0 008	–
Inc & Grwth $ Prtflo	$1.732	1 864	+0 014	–
High Income £ Prtflo	£0 561	0 626		–

	Bid Price	Offer Price	+ or –	Yield Grss
Sarasin (Isle of Man) Ltd				
Fergus Fd Sept 13		£12 10		–
UK Trend Sept 13		£8 80		–
Target International (Isle of Man) Ltd				
IMC Offshore Fd	£8 34	9 02		–
Fleet Street Inv Fd	£7 29	7 75		–
Offshore Income Fd Ltd	£9 05	9 52		–
Ashton Miller WW S/S	£9.86	10 42		–
Tattersall Intl Assets	£7 46	7.79		–
Tyndall International (Isle of Man) Ltd				
H I Gilt/Bullion	96 6	–		
(Accum Shares)	154 0	161.8	+0.2	–
Unibank Scandinavian Fund Ltd				
Scandinavia Fd	181 30	193 03		1.0

JERSEY (SIB RECOGNISED)

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or –	Yield Gr's
Barclays International Funds						
PO Box 152, St Helier, Jersey CI 0534 67888						
Australian Eq (Inc)	5¼	£0 920	0 924	0.989		2.5
Global Income (Inc)	5¼	£0 411	0 417	0 447		
Global Resources R	5¼	£0 409	0 415	0 441		1.3
Currency Fund						
Stlg Premium Income R		£10.07		10 08	+0.01	13 0
Capital House Fund Mgrs (CI) Ltd (0900)H						
PO Box 189, Capital Hse, Bath St, St Helier, Jersey.						
Tel 0534 74689 (Dealing) 0534 75634 (Helpline)						
Facsimile 0534 79040 Telex 4192136						
Capital House International Growth Funds Ltd						
Equities						
UK Equity	5	£1 060	1.060	1 125		–
North American	5	$1.412	1 477	1.567		–
Japanese	5	$1 579	1.579	1 676		–
Pacific Basin	5	$2 336	2 336	2 479		–
Continental European	5	$2 467	2.467	2 618		–
Gold	5	$1.429	1.454	1.543		–
Bonds						
Sterling Bond	5	£1 322	1.322	1.394		–

JERSEY (REGULATED)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

US dollar remains weak

THE DOLLAR remained weak yesterday against European currencies as dealers continued to anticipate an easing in US monetary policy in response to slower economic growth.

Still undermining the dollar were the comments by Mr Alan Greenspan, chairman of the Federal Reserve, that monetary policy could be eased if a credible budget deficit reduction deal was reached. Most analysts are anticipating an imminent budget agreement, although they were not assuming an immediate response by the Fed.

The latest economic data has also heightened expectations about a cut in US rates. Last week falls were announced in retail sales and industrial production, while producer prices rose by less than anticipated. Today US consumer price and trade statistics are released.

The August consumer price index is expected to have risen 0.8 per cent, compared with 0.4 in the previous month. When the volatile food and energy components are stripped out, the index is expected to have risen by only 0.4 per cent, against 0.6 the previous month. Meanwhile, the July trade deficit is forecast to widen to $7.3bn, compared with last month's $5.1bn. But analysts emphasised that a deficit of $7bn would be no worse than the average for most of this year, and would have little affect on the dollar.

The US unit was firmer yesterday against the yen. The Japanese currency has been boosted since the middle of August by Japanese money managers taking profits on foreign currency holdings before the end of their financial half-year on September 30. However, with most of this business now completed, the capital flows back into Japan have started to dry up, causing the yen to weaken.

The dollar closed lower at DM1.5570 against DM1.5610; at SFr1.2860 from SFr1.2905; at FFr5.2170 from FFr5.2300; but was stronger at Y136.95 from Y136.60. The Bank of England's dollar index lost 0.1 to 62.4.

The Italian lire was depressed, particularly against the D-Mark, and closed below its central European Monetary System rate. Mr Christian Dunis of Chemical Bank said lower short-term Italian money rates had weakened the lire and warned that the Bank of Italy may be forced to intervene to prevent a further decline. The D-Mark closed at L749.10 compared with L746.50.

Sterling was firmer on belief that persistent UK inflation prevents early full membership of the European Monetary System, which in turn could delay a cut in interest rates. Analysts said the recent unexpectedly large rise in inflation had boosted the pound and could postpone a reduction in rates until the new year.

The pound closed unchanged at DM2.9625; and at FFr9.9275; was firmer at Y260.50 from Y259.25; and at $1.9030 from $1.8980; but eased to SFr2.4475 from SFr2.4500. Its index rose 0.2 to 94.4. In New York, sterling ended stronger at $1.9140.

£ IN NEW YORK

Sep.17	Latest	Previous Close
£ Spot	1.9135-1.9145	1.8925-1.8935
1 month	1.05-1.03pm	1.04-1.02pm
3 months	3.06-3.03pm	3.06-3.03pm
12 months	10.2-10.1pm	10.2-10.1pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Sep 17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8990 - 1.9100	1.9025 - 1.9035	1.05-1.03cpm	6.56	3.08-3.05pm	6.44
Ireland†	1.7230 - 1.7280	1.7230 - 1.7240	0.38-0.33cpm	2.47	1.33-1.23pm	2.97
Canada	1.1565 - 1.1640	1.1585 - 1.1595	0.43-0.46cdis	−4.61	1.34-1.29dis	−4.37
Netherlands	1.7495 - 1.7570	1.7545 - 1.7555	0.02-0.04cdis	−0.21	0.12-0.16dis	−0.32
Belgium	31.90 - 32.05	31.90 - 32.00	1-4cdis	−0.94	4-10dis	−0.88
Denmark	5.92½ - 5.95¼	5.92¾ - 5.93¼	1.10-1.30oredis	−2.43	3.40-4.00dis	−2.50
W. Germany	1.5515 - 1.5625	1.5565 - 1.5575	0.01-0.03pfdis	−0.15	0.10-0.13dis	−0.30
Portugal	137.70 - 137.90	137.70 - 137.80	78-93cdis	−7.45	250-280dis	−7.70
Spain	97.70 - 98.10	97.95 - 98.05	50-54cdis	−6.37	154-163dis	−6.47
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

EMS EUROPEAN CURRENCY UNIT RATES

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LONDON (LIFFE)

CHICAGO

BASE LENDING RATES

Barclays Bank	15	Heritable & Gen Inv Bk	15	Westpac Bank Corp	15
Benchmark Bank	15	● Hill Samuel	§15	Whiteaway Laidlaw	15
Brit Bk of Mid East	15	C. Hoare & Co.	15	Yorkshire Bank	15
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	McDonnell Douglas Bnk	15		
Clydesdale Bank	15	Midland Bank	15		
Comm.Bk.of London Plc	15	Mount Banking	15		
Co-operative Bank	*15	Nat Bk. of Kuwait	15		

● Members of British Merchant Banking & Securities Houses Association. * Deposit now 5.9% Saverite 8.5%. Top Tier-£50,000+ instant acces 13.7% & Mortgage base rate. § Demand deposit 9%. Mortgage 15.2% - 15.95%.

MONEY MARKETS

London rates steady

LONDON money market rates were steady as traders continued to accept that the UK government will keep monetary policy tight until inflationary pressures are contained.

Three-months inter-bank money was quoted at 14⅞-¾ per cent, unchanged from Friday's close. At the short end, overnight money was at 14⅞-¾ per cent compared with 15-14¼ on Friday.

Money dealers said the larger-than-expected rise in August inflation dashed hopes of an early reduction in interest rates. The government has said it will not cut rates until inflation is showing clear signs of falling, and some dealers said that may not be until later in the year.

UK clearing bank base lending rate 15 per cent from October 5, 1989

In the futures market, trading was slow. December short sterling was up 1 at 85.68.

The Bank of England bought £1.202bn of Treasury bills compared with its final forecast shortage of £1.25bn. Money dealers said the Bank had made up more of the market shortage than last week, which had caused a slight easing in overnight rates.

During the morning the Bank bought £508m of bills, of which £36m were band one bank bills at 14¾ per cent and £472m in band 2 bills at 14¾. Before lunch it bought an additional £191m of bills. In band 1 it bought £15m at 14¾ per cent and in band 2 £171m bank bills and £5m Treasury bills at 14¾.

Later in the day, the Bank bought £453m of bills, of which £190m were in band 1 at 14¾ per cent and £263m were in band 2 at 14¾. Finally, late assistance of £50m was provided.

Among the main factors contributing to the shortage were bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills, which drained £952m.

Exchequer transactions accounted for a further £620m and bank balances below target absorbed £80m. This was partly offset by a fall in note circulation of £550m.

In Frankfurt call money was quoted at 7.95-8.05 per cent, unchanged from Friday. German money rates were underpinned by tightness in the market caused by tax payments, which drained funds.

Dealers hoped the Bundesbank would fully offset the DM21.4bn securities repurchase funds expiring this week when it allocates new funds tomorrow.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

PUBLIC NOTICES

COMPANY NOTICES

MONEY MARKET FUNDS

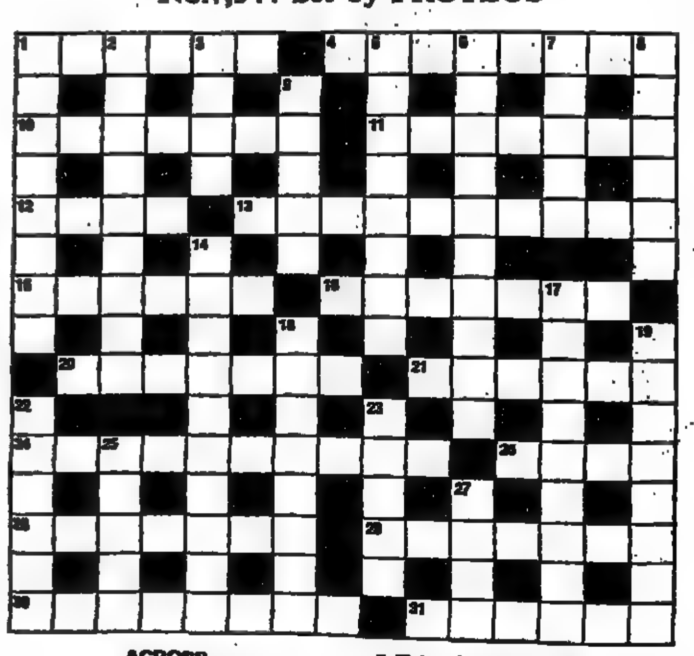
Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

No.7,344 Set by PROTEUS



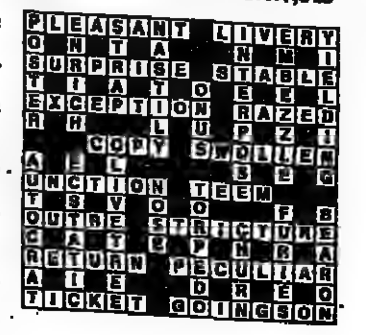
ACROSS

1 Animal historian (6)
4 Most stupid bumpkin in trial (8)
10 Our land's afflicted with excrescences (7)
11 Hide on island to the south-east (7)
12 Foul causing row (4)
13 Criminal flame-throwing thespian (10)
15 Bird is able to pair we hear (6)
16 Introduce irrelevant matter into order about retreating soldier (7)
20 The lies spread about a pony (7)
21 Card of admittance (6)
24 Giant modification in salt-water ship (10)
26 Studied geography to obtain advantage (4)
28 Girl getting break on top of the world? (7)
29 Gift despatched in advance apparently (7)
30 Note included in wages having a beneficial effect (8)
31 Tree seen in part of London (6)

DOWN

1 Produce peculiar green tea? (8)
2 Sufficiently serious to require branch in foreign port (3,6)
3 Cast amorous eyes on duck with broken leg (4)
5 Tries hay regimen for nervous complaint (8)
6 Fowl stealing grain – or is it a fabulous monster? (10)
7 Result of putting uniform on model (5)
8 Speculation about man being Conservative (6)
9 Time off for snap (5)
14 Irishman taking mother (or father) round legislative assembly (10)
17 Plant that should make good progress (9)
18 Despot finding unusual tact in couturier (8)
19 One who agrees that animal go in for event (8)
22 Sailor-girl as head of religious establishment (6)
23 Take pot shot at bird (5)
25 Perfect fish to a novice (5)
27 Ban on some love-tokens (4)

Solution to Puzzle No.7,343



WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · FRANCE (continued) · GERMANY · GERMANY (continued) · ITALY · ITALY (continued) · NETHERLANDS · NORWAY · SPAIN · SWEDEN · SWITZERLAND · SOUTH AFRICA · JAPAN · AUSTRALIA · AUSTRALIA (continued) · HONG KONG · MALAYSIA · SINGAPORE

CANADA

TORONTO
Closing prices September 17

MONTREAL
Closing prices September 17

INDICES

NEW YORK

DOW JONES	Sept. 17	Sept. 14	Sept. 13	Sept. 12	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Industrials	2567.33	2564.11	2582.67	2625.74	2999.75 (16/7)	2483.42 (23/8)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	89.35	89.54	89.65	89.49	93.04 (3/1)	[illegible] (2/5)	—	—
Transport	887.94	889.42	898.11	908.65	1212.77 (6/6)	862.31 (23/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	199.89	199.20	201.46	201.71	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

(Day's High 2585.89 (2585.15) Low 2537.13 (2545.54)

STANDARD AND POOR'S

Composite ‡	317.77	316.83	318.65	322.54	368.95 (16/7)	307.06 (23/8)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials (Listed)	375.85	374.60	376.88	381.96	437.37 (16/7)	362.23 (23/8)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	22.98	22.93	23.25	23.64	31.87 (3/1)	22.87 (23/8)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	174.62	174.15	175.16	177.89	201.13 (16/7)	168.88 (23/8)	201.13 (16/7/90)	4.46 (28/4/42)
Amex Mkt. Value	321.71	321.45	322.01	323.19	382.45 (5/1)	315.85 (23/8)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	374.11	374.41	376.18	380.32	469.60 (16/7)	360.22 (23/8)	485.73 (9/10/89)	54.87 (31/10/72)

	Sept 14	Sept 7	Aug 24	year ago (approx.)
Dow Industrial Div. Yield	3.95	3.86	4.29	3.76

	Sept 12	Sept 5	Aug 29	year ago (approx.)
S & P Industrial div. yield	3.28	3.24	3.24	2.81
S & P Ind. P/E ratio	15.44	15.47	15.47	14.42

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Dig Equip	1,557,800	56⅝	+ ¼
Philip Morris	1,504,800	44⅝	+ ⅛
Prime Motor	1,335,700	1⅛	− ⅛
Gen Electric	1,266,300	59	− ⅛
Gen Motors	1,261,100	37⅞	− ¼
Pepsico	1,205,700	24⅛	− ⅛
Exxon	1,186,600	51⅝	+ ⅛
Boeing	1,037,700	45⅝	− ⅛
Tips & Oil	953,200	23⅛	+ ⅛
Walt Dis	927,300	6⅞	+ ⅛

TRADING ACTIVITY

† Volume (Millions)	Sept. 17	Sept. 14	Sept. 13
New York	110,600	133,390	124,922
Amex	9,250	8,727	8,006
NASDAQ	[illegible]	103,494	105,651
Issues Traded	1,961	1,935	1,938
Rises	673	451	421
Falls	785	1,005	1,005
Unchanged	503	479	512
New Highs	13	6	9
New Lows	152	171	99

CANADA

TORONTO	Sept 17	Sept 14	Sept 13	Sept 12	1990 HIGH	1990 LOW
Metals & Minerals	3034.67	3030.10	3050.90	3074.10	3453.05 (4/1)	2880.80 (23/4)
Composite	3262.80	3253.60	3264.39	3271.80	4009.47 (3/1)	3253.68 (14/9)
MONTREAL Portfolio	[illegible]	1698.67	1706.51	1710.83	2040.90 (3/1)	1698.67 (14/9)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Monday 17 September 1990

4pm prices September 17

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	14½	AAR	.48	3.3	9	382	14½	d14⅜	14⅜	– ⅛
9⅝	7⅛	ACM n	1.01	13.		257	8	7⅞	8	+ ⅛
11⅝	9⅝	ACMIn	1.26	13.		367	9⅝	9½	9½	– ⅛
9⅛	7	ACM M	m1.01	14.		557	7⅛	d 6⅞	7	– ⅛
12⅛	10	ACMMM	1.50	13.		239	11⅝	11⅝	11⅝	– ⅛
11½	9⅛	ACM Sc	1.26	13.		932	9⅝	9⅜	9½	+ ⅛
9⅜	7⅞	ACMSp	1.01	13.		751	8	7⅞	8	– ⅛
24⅝	14⅝	AL Lab	.16	.8	17	x258	19⅞	19½	19⅝	– ⅛
5⅛	1⅝	AM Intl				1620	1½	d 1¼	1⅜	– ⅛
23⅛	7	AM In pf	2	24.		39	8½	8¼	8½	
107⅛	43	AMR			10	3159	43⅞	d42⅝	42⅞	– ⅞
26½	25	ANR pf	2.67	10.		68	25⅝	25⅜	25⅜	– ⅜
4⅛	2⅜	ARX			9	12	3	2⅞	3	– ⅛
72⅛	42	ASA	3a	6.1		651	49½	49	49⅜	+ ⅜
45⅜	30⅝	AbtLab	s.84	2.1	20	5716	41	39⅝	40⅜	+ ⅛
14⅞	11⅛	Abitibi g	.50			12	13⅛	13⅛	13⅛	
11⅝	5⅞	AcmeC	.40	6.5	7	67	6⅛	6	6⅛	
9⅜	6⅛	AcmeE	.32	4.9	8	7	6⅝	d 6½	6½	– ⅛
32⅞	16⅞	Acuson s			24	801	29⅛	28½	29⅛	+ ⅛
16⅞	14⅛	AdaEx	2.08e	14.		67	15⅜	15⅛	15⅛	– ⅛
15⅛	10	Adobe				46	12⅞	12⅛	12⅛	– ⅛

Continued on Page 47

NYSE COMPOSITE PRICES

Continued from previous Page

– X–Y–Z –

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
66⅝	36½	Xerox	3	7.8	7	612	39⅛	38⅝	38⅝	- ⅛
22⅝	16⅛	XTRA	.72	4.0		285	18	17⅞	18	+ ⅛
28	18⅛	XTRA pf1.94		12.		25	16⅞	16⅞	16⅞	- ⅛
4	1⅛	Zapata				144	1⅝	1⅝	1⅝	
10⅞	5	Zemex				10	5⅝	5⅝	5⅝	- ⅛
17⅞	5⅛	ZenithE				336	5⅞	5⅝	5⅝	- ⅛
19½	13⅛	ZenNtl	.88	6.5	8	17	13½	13⅜	13½	
8⅞	4½	Zenix	.90	17.		266	5⅜	5¼	5¼	+ ⅛
18½	10⅛	Zero	.40	3.6	11	10	11	10⅞	11	
51⅛	34⅛	Zurnin	.76	1.9	17	473	39⅝	38⅛	39⅝	- ⅛
12⅝	10⅛	Zweig	1.21e	11.		423	10⅞	10⅝	10⅞	+ ⅛
10	8⅛	ZweigTl	.96	11.		1620	8⅝	8½	8⅝	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices September 17

NASDAQ NATIONAL MARKET

3pm prices September 17

AMERICA

Equities await pact on budget deficit cuts

Wall Street

AFTER AN opening fall of nearly 20 points, the Dow Jones Industrial Average clawed its way back yesterday to close a little higher on the day, *writes Janet Bush in New York.*

The Dow was finally 3.21 up at 2,567.32 after a thin volume for the New York SE of 110m shares. The Dow had fallen 18¼ points on Friday.

Trading was very quiet as the market waited for developments in the current budget negotiations and in the Middle East. A pact on cutting the budget deficit was expected last week to be reached by the weekend, but had still not emerged.

Traders think that there may be room for a short bounce in the stock market once an accord is finally signed, but few believe that the buying will be sustained. It is clear to most observers that a package to cut about $500bn off the deficit over the next five years is inadequate, particularly given the rising costs of Operation Desert Shield.

The situation in the Middle East is more tense after Iraq last week violated the diplomatic immunity of several foreign embassies in Kuwait, a move that has triggered diplomatic retaliation.

These tensions were reflected in another surge in crude oil prices. On the New York Mercantile Exchange, October futures were quoted $1.87 a barrel higher at $33.63. Gold also rose and was quoted up $4.20 an ounce on the Comex at $395.20, a rally that highlighted the increased concern about the Gulf crisis.

On top of all this is continuing uncertainty about what the US Federal Reserve intends to do about interest rates. Mr Alan Greenspan, Fed chairman, said last week that the Fed would be prepared to cut interest rates after a suitable budget accord is signed.

This is a double-edged sword for US markets. On the one hand, lower interest rates would help bolster economic growth. On the other, easier monetary policy would worsen an already troublesome inflation problem and further undermine a sharply weaker dollar. Long-dated Treasury bonds dropped yesterday on these concerns.

Inflationary pressures are in focus this week with August consumer prices expected to be released today. The consensus of forecasts is for a rise of 0.8 per cent in the consumer prices index, compared with a gain of 0.4 per cent in July.

Blue chips were mixed. IBM added $⅞ at $105⅛, AT&T was unchanged at $30⅝ and Philip Morris gained $¼ to $44⅞. However, Compaq Computer shed $½ to $43⅝, International Paper also slipped $½ to $46 and Merck lost $⅛ to $80⅝.

UAL retreated $1⅛ to $97½ on news that a group of unions at the airline is likely to abandon its latest buy-out offer valued at $201 a share.

Digital Equipment retrieved a small amount of ground, having fallen to its lowest level since 1985 at the end of last week on analysts' pessimism about its earnings outlook. It lost another $⅝ before rallying to close a net $¼ better at $58⅞.

Apple Bancorp put on $⅜ to $33½ after dropping its opposition to a $38-a-share offer from Mr Stanley Stahl, a New York real estate developer. The company said it was now neutral on the proposal. Banc One fell $1⅛ to $22 after a competitor in Texas acquired the largest thrift in Oklahoma.

Canada

THE TORONTO market closed on a mixed note after moderate trading, with the Gulf crisis overshadowing investors' hopes that a US budget agreement would be reached.

Stock prices picked up from an opening fall after New York regained early losses. The composite index ended 8.3 up at 3,262.0, but declining issues still led advances by 319 to 225. Volume came to 20.7m shares, against Friday's 17.5m.

Fletcher Challenge Canada "A" lost C$⅞ to C$13⅞. The company said on Friday that it is seeking a buyer for its Delta Plywood division because of increased US competition and a lack of economical log supply.

ASIA PACIFIC

Nikkei drops on sharply lower bond prices

Tokyo

INVESTORS were unnerved yesterday by a sharp fall in bond prices, triggered by higher interest rates and bad news for the bond market, and the Nikkei average lost more than 500 points in quiet trading, *writes Michiyo Nakamoto in Tokyo.*

Share prices eased from the outset, and remained sluggish throughout the day. The Nikkei closed 531.86 lower at 24,365.60, against a day's high of 24,888.67 and a low of 24,286.48. Declines outpaced advances by 822 to 144, while 125 issues were unchanged.

Turnover dropped to 300m shares from Friday's 530m as the broadly based Topix index fell 35.49 to 1,860.19. In London, the ISE/Nikkei 50 index retreated 12.13 to 1,385.70.

The market was depressed by a steep decline in bond futures prices, which fell to a record low on rising money market rates and news that the Ministry of Finance plans to require Japanese banks to report unrealised profits and losses in bond portfolio investment and dealing accounts. The requirement is expected to come into effect when books are closed in March, 1991.

The Topix index futures benchmark December contract tumbled by the maximum amount allowed in a day, coming out worse than the Nikkei index futures, because the former is more heavily weighted towards the interest rate-sensitive financial sector. Sentiment was also dampened by a news report that several smaller banks have accumulated substantial market value losses on their stock holdings.

With key US economic indicators to be announced later this week, investors chose to stay on the sidelines. Institutions have also been inhibited by the closing of their books at the end of this month.

Buying focused on special situations. Dainippon Ink and Chemicals topped the actives list with 11.1m shares traded and forged ahead Y43 to Y588. Investors were encouraged by its development of a high-quality liquid crystal display system.

Iwatani International, the trading company, was third in volume with 9.2m shares and climbed Y30 to Y1,300. It was popular for its substantial share of the liquid petroleum gas market, as investors were eager to buy alternative energy issues. Iwatani was also pursued on speculative buying.

Interest rate-sensitive issues were hit. Tokyo Electric Power, which is also badly affected by higher crude oil prices, fell Y120 to a year's low of Y3,180. The power company's pre-tax profits were expected to fall 40 per cent.

Itoman, a trading company which has been actively involved in real estate, shed Y180 to Y1,160 after news that it had suffered heavy interest rate burdens and that its loans to property concerns were estimated at Y245bn.

Blue chip electricals succumbed to selling as investors were discouraged by the adverse affect that a sluggish US market would have on their business. Sony, which has a high export ratio of 60 per cent, lost Y140 to Y6,860, while Matsushita fell Y30 to a year's low of Y1,710.

Osaka saw blue chips and large capital issues hit by small-lot selling. The OSE average closed at its low for the day of 28,709.76, down 397.17. Turnover rose to 74m shares from 58m recorded on Friday.

Roundup

NEW ZEALAND was the only bright spot in an otherwise depressed Pacific Rim yesterday, as the country's Government and the unions struck an agreement on wages.

NEW ZEALAND rallied as rumours of a wage deal between the Government and unions raised hopes of a fall in interest rates. The rumours were confirmed after the close. After a weak opening, the Barclays index closed a net 22.70 up at 1,560.46. Turnover fell from NZ$13m to a light NZ$10m.

AUSTRALIA followed Tokyo lower. The All Ordinaries index eased 2.6 to 1,477.4. Turnover decreased to 73m shares, valued at about A$99m, from 82m shares, worth A$133m. Elders IXL advanced 11 cents to A$1.67 after announcing on Friday that Asahi Breweries, of Japan, had proposed to buy a stake of 19.9 per cent in Elders.

MANILA fell to a 39-month low as talks opened between US and Philippines officials regarding the future of US bases in the country. The composite index lost 16.73, or 2.6 per cent, to 625.57. TAIWAN rose as an early sell-off was reversed by technical buying. The weighted index climbed 34.26 to 3,396.51. Volume slipped to NT$17.22bn from NT$19.56bn.

SINGAPORE finished sharply lower following thin trading. The Straits Times Industrial index dropped 30.10 to 1,196.73 and volume fell from S$71.7m to S$58.4m. KUALA LUMPUR suffered its largest one-day fall in three weeks. The composite index ended down 9.74 at 533.88.

HONG KONG tumbled 1.3 per cent, hurt by negative developments in the Gulf. The Hang Seng index weakened 42.17 to 3,019.87. Turnover contracted to HK$458.2m, the lightest since January 24, from HK$520.5m.

SEOUL fell to its lowest level in 32 months. The composite index closed at 566.27, down 24.35, or 4.1 per cent, from Saturday on slow volume of Won79.3bn, against Won61bn in Saturday's half-day trade.

BANGKOK fell further on continued uncertainty about local politics and the Gulf situation. The composite SET index tumbled 57.50, or 7.6 per cent, to 702.48.

SOUTH AFRICA

ANOTHER DAY of lifeless trading in Johannesburg left share prices steady to lower as investors stayed on the sidelines. Gold shares were narrowly mixed, in spite of higher bullion prices, with the all-gold index up 3 at 1,566.

EUROPE

Individual talking points relieve agony on bourses

INDIVIDUAL talking points relieved some of frustration on bourses yesterday, but generally the mood was still muted, and depressed, *writes Our Markets Staff.*

FRANKFURT recovered slightly after a 31.05 point drop to 654.72 in the FAZ at midsession, the DAX closing 12.92 lower at 1,541.15. Turnover stayed low at DM3.3bn, up from DM3.2bn on Friday.

Apart from the Continental/Pirelli story, there were drops of DM30.90 to DM516.60 in Metallgesellschaft (MG), and a further DM8 to DM183.50 for KHD, making a DM20.50 fall over three sessions. KHD has just forecast 1990 profits, after a succession of losses. Meanwhile, Mr Michael Geiger of County NatWest said that MG's fall reflected institutional sales of stocks with high p/e ratios, in spite of "quite impressive" prospects in areas like ecology, eastern Europe and North American mining.

MILAN slid in meagre turnover. The Comit index fell 13.51 to 600.15. Investors were unsettled by fears that domestic unit trusts, especially equity funds, would show net redemptions in September, and that the Government would be unable to keep the 1990 budget deficit within target.

The insurance sector was the hardest hit, with Generali losing L1,140 or 3 per cent to L36,990. In the industrial sector, Fiat fell L180 to L6,615.

PARIS ended above its day's lows as Wall Street opened steadily, but volume remained very light. The CAC 40 index ended 10.91 down at 1,604.02. The only encouraging aspect was the fact it held above 1,600 without too much intervention from the big institutions, said one salesman.

Turnover was similar to Friday's at about FFr1.27bn. This included active trading in Electronique Serge Dassault, the electronics company, which eased 10 centimes to FFr299.90 in volume of 384,048 shares. A block of 382,773 shares, or 7.9 per cent of the company's capital, was traded at FFr300 a share; the move was interpreted as a reshuffling of stakes by core shareholders.

AMSTERDAM closed lower across the broad in thin trading. The CBS tendency index fell 0.8 to 100.8. Investors were sidelined before the Dutch annual budget announcement, due today. Royal Dutch, ex an interim dividend of Fl 3.35, closed Fl 2.40 lower at Fl 143.40 with high oil prices continuing to lend some support.

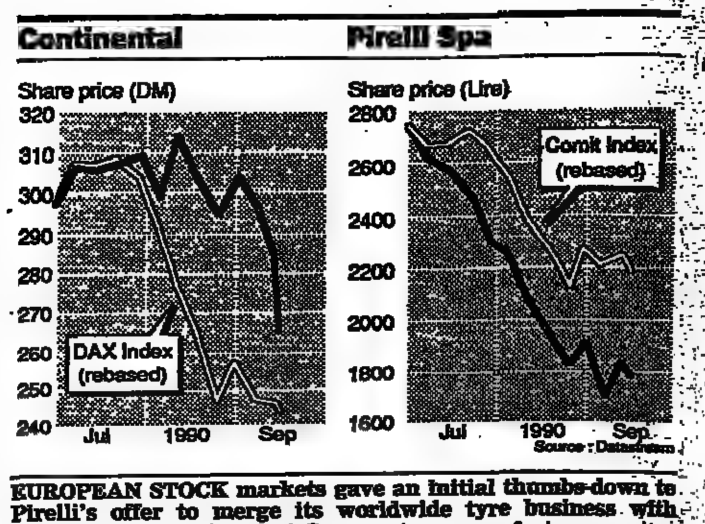
ZURICH edged lower, although banks held firm as the Crédit Suisse index shed 4.5 to 529.9. Adia, the employment agency, topped the actives list, its bearers dropping SFr55 to SFr960; once highly fancied, the stock has now more than halved from its 1990 peak.

MADRID declined in a quiet session, in which the general index fell 3.32 to 230.10, another low for the year. Banco Santander slipped Pta75 to Pta3,915; the bank said it had raised its prime lending rate to 13.10 from 12.55 per cent. This follows a rate rise by Banco Hispano Americano last week.

Corporacion Mapfre, the insurance company, dropped Pta650 or 12 per cent to Pta4,750 after announcing a one-for-five rights issue.

VIENNA declined in uncertain trading, with the bourse index losing 21.50 or 3.8 per cent to 546.40. Montana, the holding company, dropped Sch8,000 to Sch71,500.

ATHENS rebounded after its closure on Thursday and Friday last week, with the general index gaining 82.56 or 6.8 per cent to 1,302.28. ISTANBUL's index eased back, however, with a loss of 50.37 to 5,007.34.



EUROPEAN STOCK markets gave an initial thumbs-down to Pirelli's offer to merge its worldwide tyre business with Continental AG, the West German tyre manufacturer, writes Antonia Sharpe. Continental shares fell DM20.20 to DM265 in Frankfurt; in Milan, Pirelli Spa eased L26 to L1,785 and, in Amsterdam, Pirelli Tyre Holding NV rose a marginal 40 cents to Fl 23.

Mr Bob Barber at James Capel said that, while Continental had been the subject of takeover speculation in recent months, conflicting reports of Pirelli's intentions and insufficient information from the company itself made it difficult to advise investors.

"On the face of it, it appears that majority Continental shareholders backing the deal have information which is not available to minority shareholders," said Mr Barber. "If this is correct, it would be more appropriate if the shares of all three companies were suspended until the information was generally available." In the event, only the Dutch-based shares were temporarily suspended in morning trading.

Mr Jamie Stewart at Barings Securities said that, from an industrial standpoint, Pirelli had chosen the right time to restructure and pick up necessary critical mass when the tyre industry is going through a difficult period. But he thought that shareholders were unlikely to see any reward until the second year of an industrial upswing at the earliest.

Volatility produces little net change

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1990	% change sterling † Start of 1990	% change in US $ † Start of 1990
Austria	+0.05	−7.83	+17.74	+12.12	+2.79	+20.99
Belgium	+0.11	−3.82	−19.50	−18.11	−22.96	−9.32
Denmark	+0.78	−3.90	+2.80	−2.95	−9.12	+6.98
Finland	−3.38	−12.91	−26.25	−20.37	−25.85	−12.73
France	−0.60	−3.70	−18.06	−21.07	−25.82	−12.69
W. Germany	+0.20	−6.46	−1.74	−10.73	−17.81	−3.27
Ireland	+1.63	−11.83	−23.78	−26.45	−30.96	−18.74
Italy	+1.59	−2.62	−20.09	−15.64	−22.01	−8.20
Netherlands	−0.64	−1.77	−13.66	−11.58	−18.44	−4.00
Norway	−0.40	−0.56	+23.25	+23.85	+14.60	+34.89
Spain	−3.78	−8.74	−28.20	−21.64	−25.80	−12.66
Sweden	−0.03	−5.51	−3.99	−4.89	−12.91	+2.51
Switzerland	−0.05	−5.06	−17.67	−15.45	−14.15	+1.04
UK	−1.38	−4.29	−14.41	−14.90	−14.90	+0.17
EUROPE	−0.89	−4.63	−13.75	−14.86	−17.97	−3.46
Australia	+0.45	−3.64	−12.06	−8.87	−19.09	−4.77
Hong Kong	+0.66	−1.68	+13.24	+8.50	−9.07	+7.03
Japan	+2.47	−6.07	−30.81	−36.29	−43.02	−32.93
Malaysia	−0.87	−4.07	+8.21	−5.46	−19.56	−5.31
New Zealand	−1.93	−8.14	−32.95	−21.00	−29.15	−16.62
Singapore	−0.07	−7.58	−9.57	−11.87	−19.67	−5.46
Canada	−1.25	−5.92	−14.08	−14.91	−28.06	−15.35
USA	−2.02	−3.26	−8.48	−10.71	−24.15	−10.71
Mexico	+0.70	−4.51	+87.06	+70.22	+34.42	+58.22
South Africa	−3.03	−11.17	+7.20	−4.11	−25.88	−12.76
WORLD INDEX	−0.10	−4.68	−18.24	−21.86	−30.47	−18.16

† Based on September 14th 1990. Copyright, The Financial Times Limited, Goldman, Sachs & Co., and County NatWest Securities Ltd.

By Jacqueline Moore

WORLD STOCK markets continued to be swayed by each piece of news concerning the Gulf last week, leaving most of them little changed from the previous Friday.

Positive influences included the Bush-Gorbachev summit in Helsinki at the weekend, and the address to the nation by US President George Bush on Tuesday night; worries included the speech by the Iranian spiritual leader in favour of holy war on Wednesday, and reports of the detention of French civilians on Friday.

A positive start to the week by European bourses had vanished by Friday night, leaving the FT-Actuaries West German index, for example, 0.2 per cent higher in local currency terms, and the French index 0.6 per cent lower.

Worst hit were Spain and Finland, losing 3.78 per cent and 3.38 per cent respectively. Spain's general market index hit a two-year low on Friday, but in very thin volumes averaging Pta6bn ($61m) a day.

Japan, however, held on to some of the week's gains, finishing 2.47 per cent higher – the world's best performance. This was in spite of worries about high interest rates, and arbitrage selling related to the expiry of the September futures contract on Thursday.

"The [Japanese] equity market is still expensive and still vulnerable to further rises in interest rates . . . However, the over-valuation of the first half of the year is now remedied. Therefore, it is no longer appropriate to maintain a grossly underweight position for Japan in international portfolios," asserts Mr Peter Tasker in Kleinwort Benson's Global Strategy Weekly.

The US was worried not only about the Middle East crisis, but also about corporate and economic health. Friday's producer prices statistics suggested rising inflation and a weakening economy. The US index declined 2 per cent.

Another poor performer was South Africa, which fell 3 per cent on the week amid concern about the Gulf and the violence in the black townships.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY SEPTEMBER 17 1990 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY SEPTEMBER 14 1990 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1990 High	1990 Low	Year ago (approx)
Australia (79)	144.88	+0.5	112.88	125.42	117.28	115.93	−0.2	6.54	144.16	112.61	124.48	117.00	116.12	158.31	125.85	154.68
Austria (19)	213.31	−3.2	166.19	184.66	172.67	172.28	−3.9	1.59	220.43	172.20	190.36	178.91	179.31	265.63	193.15	149.03
Belgium (61)	138.99	−0.9	108.28	120.31	112.51	109.51	−1.5	5.29	140.26	109.56	121.10	113.82	111.20	160.02	132.11	137.22
Canada (119)	129.89	+0.8	101.20	112.44	105.14	109.01	+0.4	3.73	128.82	100.63	111.23	104.54	108.63	153.61	120.62	147.67
Denmark (33)	258.88	−0.1	201.69	224.12	209.56	208.80	−0.6	1.42	259.09	202.39	223.72	210.27	210.36	277.62	238.69	185.10
Finland (26)	116.67	+0.3	90.89	101.00	94.44	90.02	+0.0	3.04	116.33	90.87	100.45	94.41	90.05	152.29	116.21	130.38
France (122)	135.50	−0.5	105.57	117.29	109.68	110.90	−0.8	3.89	136.23	106.42	117.62	110.55	111.76	168.85	133.16	152.37
West Germany (92)	117.63	−1.7	91.64	101.84	95.22	95.22	−2.0	2.37	119.68	93.49	103.35	97.13	97.13	144.63	117.63	96.88
Hong Kong (48)	123.45	−1.5	96.18	106.87	99.94	123.00	−1.8	5.29	125.37	97.93	108.25	101.75	125.00	147.49	112.24	111.61
Ireland (17)	147.10	−0.2	114.67	127.42	119.15	120.34	−0.6	4.34	147.52	115.23	127.38	119.72	121.10	198.57	145.42	153.04
Italy (94)	88.13	−2.5	68.66	76.29	71.34	76.80	−2.4	3.10	90.38	70.58	78.02	73.33	78.65	109.26	87.35	95.27
Japan (454)	129.43	−2.2	100.84	112.05	104.78	112.05	−2.0	0.75	132.39	103.42	114.32	107.46	114.32	197.28	118.65	179.50
Malaysia (35)	213.53	−1.5	166.36	184.84	172.84	221.71	−1.5	2.73	216.87	169.40	187.25	175.99	225.05	250.89	195.23	200.24
Mexico (13)	514.95	+0.0	401.19	445.78	416.84	1629.38	+0.0	0.32	514.95	402.24	444.64	417.91	1629.38	561.41	324.53	315.50
Netherland (42)	137.07	−0.8	106.79	118.66	110.96	106.79	−1.1	5.16	138.14	107.91	119.29	112.11	110.97	149.08	130.43	128.29
New Zealand (17)	60.57	+0.8	47.19	52.44	49.03	51.65	+1.5	6.92	60.11	46.96	51.91	48.79	50.91	75.36	59.57	84.21
Norway (23)	271.89	+0.9	211.83	235.38	220.10	222.16	+0.3	1.43	269.58	210.58	232.78	218.79	221.56	276.79	202.34	188.58
Singapore (25)	163.45	−2.4	127.34	141.50	132.31	132.91	−2.8	[illegible]	167.55	130.88	144.67	135.97	136.74	209.24	156.96	165.30
South Africa (60)	170.86	−0.3	133.12	147.91	138.31	145.04	−0.5	3.99	171.45	133.93	148.04	139.14	145.82	251.39	169.98	154.61
Spain (42)	140.56	−1.3	109.51	121.68	113.78	104.35	−1.5	5.27	142.43	111.26	122.99	115.59	105.91	182.25	132.84	161.44
Sweden (34)	195.63	−0.8	152.41	169.36	158.36	165.51	−1.2	2.43	196.87	153.78	170.00	159.78	167.44	234.93	173.89	177.23
Switzerland (65)	94.84	−0.2	73.89	82.10	76.78	75.61	−0.6	2.81	95.05	74.25	82.08	77.15	76.05	109.77	88.75	89.54
United Kingdom (301)	159.21	+0.2	124.04	137.81	128.86	124.04	−0.1	5.59	158.97	124.17	137.25	129.00	124.17	176.16	138.87	153.07
USA (534)	128.06	+0.3	99.77	110.86	103.67	128.06	+0.3	3.85	127.73	99.77	110.29	103.66	127.73	148.95	123.62	140.07
Europe (971)	136.63	−0.6	106.45	118.28	110.60	108.57	−0.9	4.28	137.47	107.39	118.71	111.57	109.53	157.65	135.57	129.32
Nordic (116)	199.78	−0.2	155.64	172.94	161.72	158.46	−0.8	1.92	200.12	156.32	172.80	162.41	159.65	223.29	185.01	165.30
Pacific Basin (658)	129.65	−2.1	101.01	112.24	104.95	112.35	−1.9	1.15	132.42	103.44	114.35	107.47	114.62	192.75	119.53	176.05
Euro-Pacific (1629)	132.84	−1.5	103.49	114.99	107.52	111.50	−1.5	2.47	134.83	105.32	116.42	109.42	113.16	174.18	127.11	157.49
North America (853)	128.06	+0.3	99.79	110.89	103.70	126.83	+0.3	3.84	127.71	99.75	110.28	103.66	126.49	148.43	124.33	141.17
Europe Ex. UK (670)	122.14	−1.1	95.16	105.76	98.89	99.17	−1.4	3.36	123.56	96.51	106.71	100.29	100.59	145.62	121.42	114.15
Pacific Ex. Japan (204)	131.42	−0.4	102.39	113.78	106.39	112.73	−0.8	5.77	131.97	103.09	113.97	107.11	113.62	146.72	122.53	134.85
World Ex. US (1821)	133.34	−1.4	103.88	115.43	107.94	112.15	−1.4	2.52	135.21	105.62	116.76	109.74	113.74	173.77	128.14	157.22
World Ex. UK (2054)	127.66	−1.0	99.46	110.52	103.35	116.46	−0.9	2.65	128.89	100.68	111.30	104.62	117.56	162.00	121.96	150.05
World Ex. So. Af. (2295)	130.22	−0.8	101.45	112.74	105.42	117.01	−0.8	2.96	131.32	102.58	113.40	106.56	118.00	161.84	125.26	150.29
World Ex. Japan (1901)	132.29	−0.1	103.07	114.54	107.11	119.98	−0.2	4.09	132.44	103.45	114.37	107.50	120.26	151.59	130.40	136.78
The World Index (2355)	130.46	−0.8	101.64	112.94	105.61	117.20	−0.8	2.97	131.56	102.77	113.61	106.78	118.20	162.05	125.57	150.32

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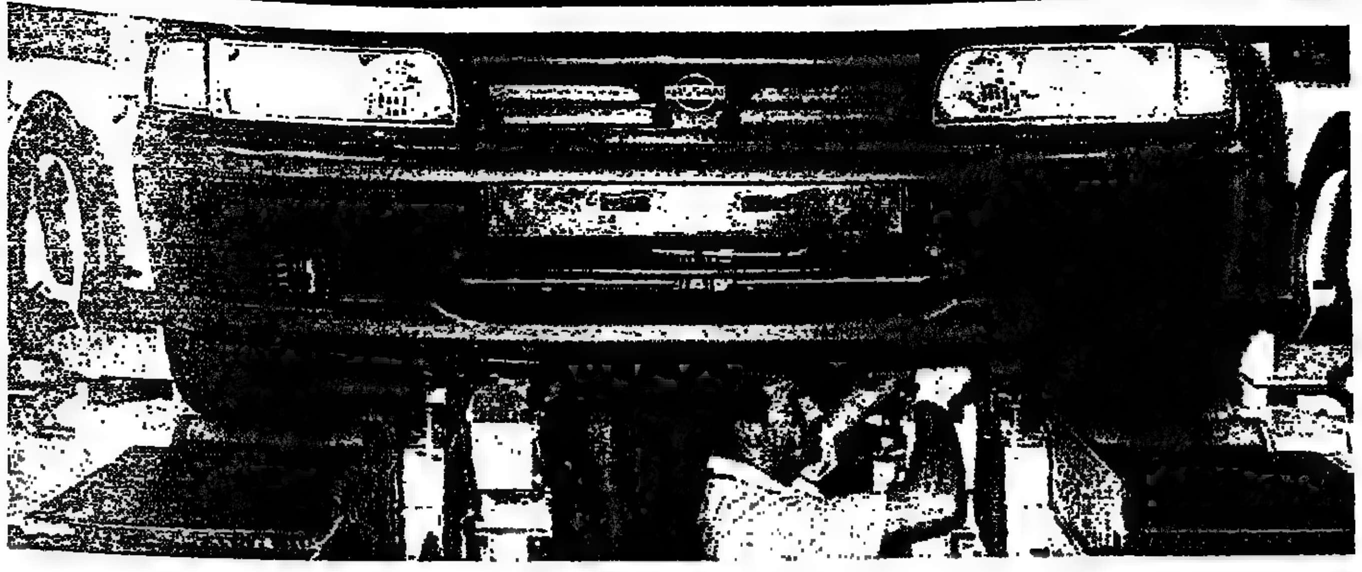
FINANCIAL TIMES SURVEY

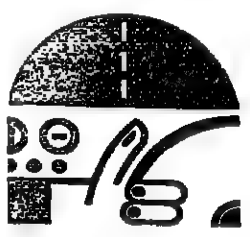
WORLD CAR INDUSTRY

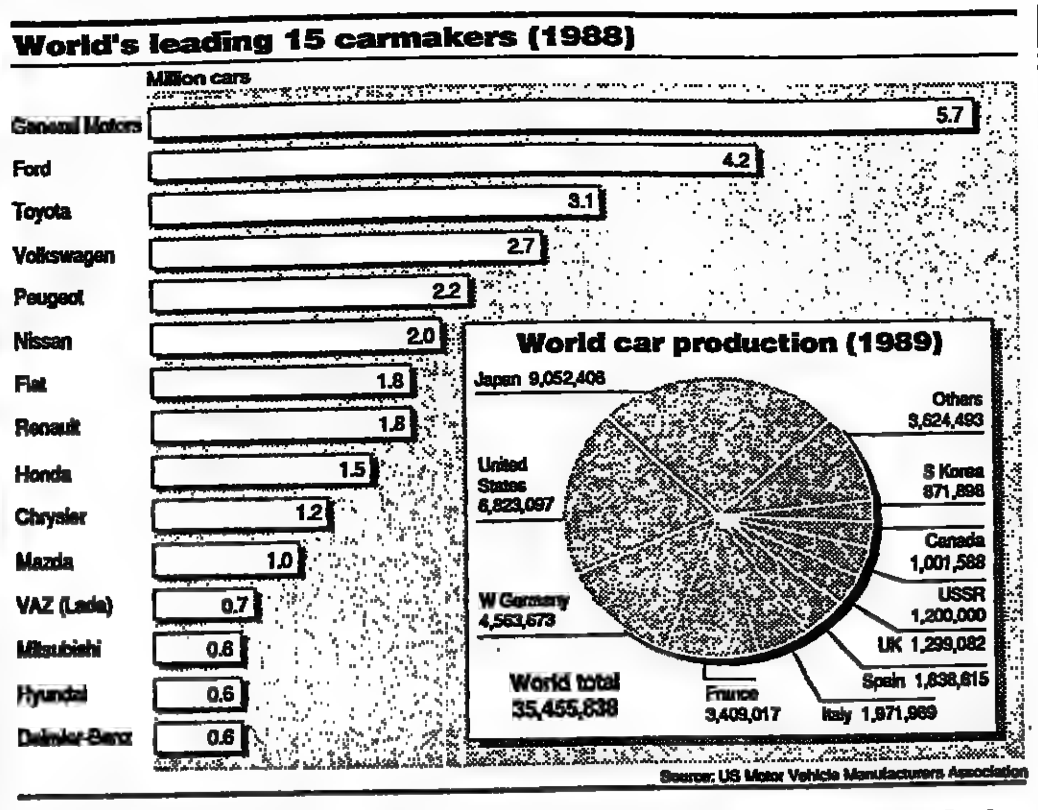
SECTION III

Tuesday September 18 1990



Nissan Primera on the production line at Sunderland, in the north of England





IN THIS SURVEY

Editorial production: Phillip Halliday

Europe is expected to be the big battlefield of the 1990s for the world's car makers. In the fight for survival the number of full-line global auto makers could be halved over the coming decade in a new wave of takeovers and alliances. Kevin Done reports

Little room for the weak

COMPETITION for space on the grid in the race for leadership of the world auto industry in the 1990s is intense, and several participants are unlikely to finish the course.

Only about half of the 10 to 12 full-line vehicle makers will survive the demands of a global market during the next 10 to 15 years as the industry continues to consolidate, Mr Philip Benton, president of Ford Motor of the US, the world's second largest car maker warned last month.

The realisation among even the biggest players that they cannot stand alone in the coming decade is leading to a further concentration of the world industry in a rapid-fire series of takeovers, mergers, alliances and co-operative ventures.

Car makers around the globe are facing the same pressures of burgeoning Japanese competition, rapidly rising research and development costs, shorter model life cycles, far tougher environmental regulations, the challenges of a single European market and the opening up of eastern Europe. The crisis in the Gulf is increasing the looming threat of tighter fuel economy regulations. It is not a climate in which the weak can survive alone.

So far it has been the US car makers that have borne the brunt of Japanese competition, as cars have started to roll in increasing numbers off the lines of the Japanese assembly plants developed in North America during the second half of the 1980s.

The focus of the Japanese effort to build a global car production base has now turned towards western Europe, however, where the region's traditional big six volume car makers fear in the 1990s a repeat of the painful US experience of the 1980s.

The development of the Japanese presence in the US has taken on awesome proportions. Japanese-badged cars captured 27.3 per cent of the US new car market in the first half of the year. The total share of Japanese-derived cars in the US exceeds 30 per cent, as General Motors, Ford and Chrysler also market under their own brand names cars supplied either from Japan or from the so-called Japanese transplants, Japanese assembly plants based in the US.

The transplants, including joint ventures with US car makers such as NUMMI (Toyota/GM) and Diamond Star (Mitsubishi/Chrysler) accounted for 21 per cent of total US car output in the first six months of 1990 compared with only 14.8 per cent a year ago. While total US car output declined by 16.8 per cent to 3.19m, production by the Japanese transplants jumped by 17.8 per cent to 669,000. Last year a Japanese car, the Honda Accord, was the best-selling car in the US, and both Honda and Toyota are threatening to oust Chrysler from third place in the US car market.

General Motors, the stumbling giant of the world auto industry and still the world's biggest vehicle maker, has been the main casualty in the domestic US auto market of the last decade, in spite of a large investment effort amounting to $77bn in the 1980s that has been poured into re-equipping and rebuilding plants – often with the most advanced but untried technologies – and into developing new models.

Mr Bob Stempel, who took over as chairman and chief executive of GM last month from Mr Roger Smith, faces probably the most daunting task in the world auto industry as he seeks to halt the slide in GM's US car market share which has plunged from 46.3 per cent in 1979 to 34.7 per cent in 1989.

In the late autumn GM will finally unveil the results of its much-vaunted Saturn project, launched in 1983 by Mr Smith to great fanfares as a "no-year" development programme for a new range of small cars, to be produced in the US, using "start-to-finish innovation".

It was the project that was supposed to show the world that GM could still compete with the Japanese in its US heartland. As the size of the task facing GM has grown, however, so too has scepticism over the ability of the GM bureaucracy to learn and implement the lessons of Saturn in the rest of its North American operations.

If the US was the focus of the Japanese assault on the world auto industry in the 1980s, Europe is expected to be the battlefield of the 1990s.

Toyota, Nissan and Honda, the three biggest Japanese car makers are developing their first European car plants – located in the UK – with an initial capacity to build 500,000 cars a year by 1995, and Mazda and Mitsubishi have announced their intention of following their lead, probably in joint ventures.

The European industry, which is facing the added challenge of the creation of the single market in 1992, is already in the throes of a new phase of restructuring.

In the last year Ford has taken over Jaguar, the UK luxury car maker for £1.4bn, General Motors has taken a 50 per cent stake and management control in the loss-making Saab car operations in Sweden, and Renault of France and Volvo of Sweden are poised to seal an ambitious alliance encompassing both their car and truck operations.

This year, Honda of Japan has taken a 20 per cent equity stake in Rover, the leading UK car maker, and Fiat has virtually completed its monopoly position in the Italian motor industry by taking effective control of Maserati and Innocenti.

The big deals are being backed by a maze of smaller collaborations between world vehicle makers anxious to cover all segments but lacking the resources to play alone.

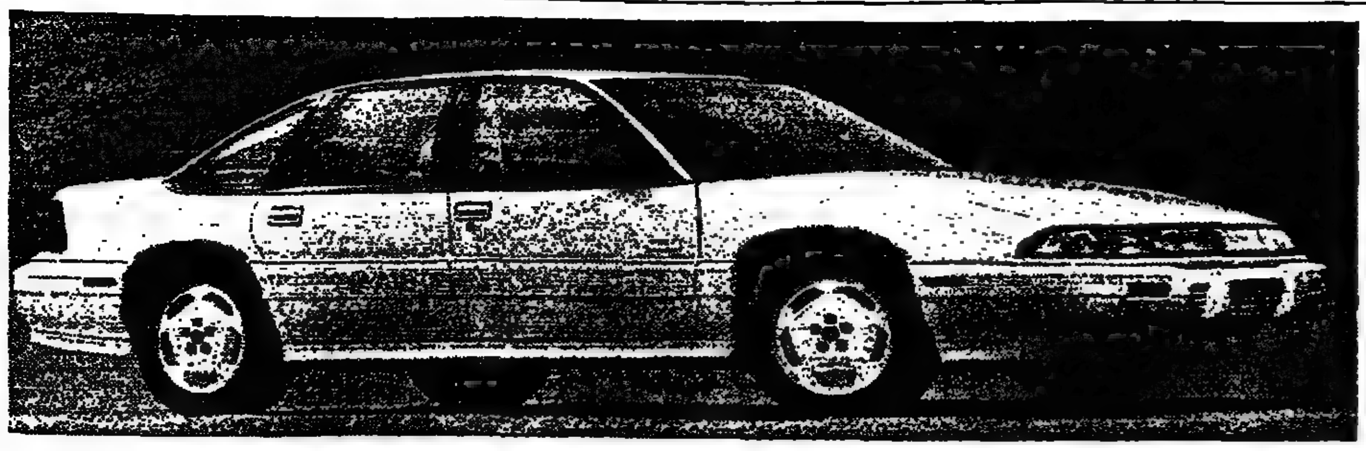
The flurry of deal making in the European auto industry has moved into eastern Europe, but companies are becoming aware of the enormous costs and political uncertainties involved in modernising the antiquated eastern European industry.

But what is the size of the competitive gap between the leading European and Japanese car makers? According to research conducted by the Massachusetts Institute of Technology's five-year International Motor Vehicle Programme, the Europeans take on average more than twice as many hours as the Japanese to assemble a car – between 30 and 45 hours in Europe compared with 16 in Japan. Only a handful of European plants are within striking distance of the Japanese and none of them comes close to the best Japanese plant.

According to Professor Dan Jones, European research director of the MIT programme, the Japanese have been successful in transferring their production system to the US and have achieved similar productivity and quality to cars imported from Japan.

"When Honda, Toyota and Nissan reach full production by the mid-1990s they will set a a new competitive standard in Europe also, which the European producers will have no option but to match," he warns.

WORLD CAR INDUSTRY 3



Pontiac Grand Prix STE Turbo, a member of the General Motors stable

UNITED STATES

An insult to the rising tide

IF INSULTS – particularly racist ones – are one of the last refuges of the vanquished, then the US motor industry is running very scared.

Considerable controversy has been stirred up in the past few months by a succession of advertisements, backed by US car dealers, which have in one way or another belittled the Japanese.

One television campaign urged Americans to buy American cars because they were "built for our size families, not theirs." Another sarcastically referred to the Manhattan's Rockefeller Center (bought last year by a Japanese company) as the "Hirohito Centre" and implied that buying a Japanese vehicle was unpatriotic.

None of this seems to have much impact on the discriminating US consumer. Its main effect is to underline that the biggest long-term question facing the US car manufacturers is whether they can stem the seemingly relentless advance of Japanese companies into their home market, or whether Detroit's "Big Three" – General Motors, Ford and Chrysler – are condemned to years of painful decline.

More immediately, the trio face the problem of recovering from this year's dive in earnings, the result of a US market suffering from over-supply, poor demand, the threat of a US recession and now, to boot, a Middle East oil crisis.

The short- and long-term issues intertwine, since many of the immediate problems facing Detroit stem from the industry's failure to halt the ever growing popularity of Japanese cars.

For most of this century Detroit was the undisputed centre of the world motor industry. In 1955, at the peak of the US manufacturers' power, it produced over 70 per cent of the world's passenger cars. Yet success, and isolation in the American heartland, bred complacency and bureaucracy.

The first Japanese imports, introduced in 1958, were a failure but by the late 1970s the Japanese had begun to make substantial inroads into the market.

They were helped by the fuel efficiency of their cars in a world made nervous by two oil crises, but they also gained a reputation for quality, value-for-money and innovation, while their US rivals were turning out uninspiring vehicles at higher cost. By 1980 the Japanese accounted for some 20 per cent of the market.

The Americans, complaining about unfair competition, got the Japanese to agree to voluntary export restraints and urged them to compete on a level playing field by building plants in the US. In the 1980s the Japanese have done just that, and merely compounded Detroit's problems.

While the new capacity has been coming on stream fast in recent years, the demand for cars has been flat or falling. US car sales in the first half of this year totalled 4.91m units, compared to 5.13m in same period of last year. In all of 1989, 9.8m new cars were registered in the US, compared to the 10.5m to 11m recorded in the mid-1980s at the top of the cycle.

The result is great excess capacity, which means the US manufacturers with old plant, used well below its capacity, are in the throes of a delicate retrenchment.

Meanwhile, the Japanese are accounting for an ever growing share of this fragile market

Meanwhile, the Japanese are accounting for an ever growing share of this fragile market. In the first half of this year the Japanese took a record 28 per cent of total car sales – domestic and imported – compared to just 24 per cent in the same period of 1989. The share of the big three US manufacturers dropped from 69 per cent to 65 per cent.

The most popular car in the US is the Japanese Honda Accord and for four years Honda's Acura luxury car division has topped the poll conducted by JD Power & Associates, a California consultancy, on the vehicles which give most customer satisfaction.

In such a fiercely competitive environment all the manufacturers – the Japanese included – have had to offer large rebates to sell vehicles and this has slashed profit margins to the point where the big three are making relatively little money from their North American operations.

There are further ominous trends: Japanese sales are particularly strong on the west and east coasts (some 40 per cent of new cars sold in trend-setting California last year were Japanese) but the Japanese are only starting to target the American heartland in earnest, building up new distribution bases in the midwest that analysts reckon could add three or four points more to their market share over the next few years.

Demographics are helpful to the Japanese. According to Mr Christopher Cedergren, of JD Power & Associates, Japanese models account for close to 48 per cent of the under-45 aged market, with General Motors on 22 per cent, Ford 17 per cent and Chrysler just 7 per cent.

Motorists are notoriously conservative in their buying habits and reluctant to switch brands. As these "baby-boomers" age, they will tend to stick to Japanese models, and the big three will find it difficult to get them back inside their showrooms.

Detriot's products certainly have improved markedly in recent years. In terms of both quality, styling and productivity the big three have greatly narrowed the gap with the Japanese, who in any case are far from fool proof. Indeed, some of the smaller Japanese producers have recently been showing signs of stumbles in the US market.

The European operations of GM and Ford are extremely profitable. This is partly due to strong demand and restrictions on Japanese imports, but the US companies have shown that managers away from the bureaucracy of Detriot can produce some excellent results.

But the Americans still have a long way to go. Many analysts believe that the main battleground in the 1990s will be lead times – the amount of time it takes to get a car off the drawing board and into showrooms; model life-time, the period during which a company turns over its model range; and manufacturing flexibility, which allows a company to respond quickly to changes in consumer taste.

The first Japanese imports, in 1958, failed but by the late 1970s the Japanese began to make inroads into the market

The US manufacturers still badly lag the Japanese in both areas, although again the gap has been narrowing substantially.

Martin Dickson, New York

US CAR MARKET
January-June 1990

	Volume (Units)	Volume Change(%)	Share (%) Jan-Jun 90	Share (%) Jan-Jun 89
Total market	4,841,000	−5.8	100.0	100.0
Imports	1,275,000	−9.3	26.3	27.6
Japanese makes - imports & US-built	1,322,000	+8.3	27.3	23.8
Of which Japanese US-built	528,000	+44.4	10.9	7.2
European imports	237,000	−4.9	4.9	4.9
Sales by manufacturer:				
General Motors*	1,754,000	−4.5	36.2	36.1
Ford*	1,022,000	−11.7	21.1	22.7
Chrysler*	436,000	−19.7	8.8	10.7
Honda	434,000	+14.3	9.0	7.5
Toyota	389,000	+24.2	8.0	8.2
Nissan	228,000	−13.8	4.7	5.1
Mazda	118,000	+4.1	2.4	2.2
Hyundai	70,000	−28.9	1.4	1.9
European imports:				
VW/Audi	79,684	−0.2	1.6	1.6
Volvo	49,300	−7.1	1.0	1.0
Mercedes-Benz	37,307	+2.8	0.8	0.7
BMW	31,487	−9.6	0.7	0.7
Saab	13,249	−18.2	0.3	0.3
Jaguar	9,450	+0.9	0.2	0.2
Porsche	5,131	+12.7	0.1	0.1
Yugo	3,725	−29.8	0.1	0.1
Sterling	2,336	−30.3	0.1	0.1
Car production	3,191,000	−16.8	100.0	100.0
Of which Japanese US-built†	669,000	+17.8	21.0	14.8
Light truck sales	2,423,000	−0.6	100.0	100.0
Imports	378,000	+5.2	15.6	14.7
Total cars & light trucks	7,264,000	−3.6	100.0	100.0

*Includes captive imports †Includes joint ventures

Iacocca: folk-hero image under threat

PROFILE: Lee Iacocca

Toughest test for a decade

MR LEE IACOCCA, the charismatic chairman of Chrysler, faces his toughest test at the third largest US motor manufacturer since he rescued it from the brink of bankruptcy a decade ago.

America's big three motor manufacturers are suffering in a market where demand is outrunning supply and Japanese producers are grabbing an ever increasing share of the market. But Chrysler is suffering the most.

It faces a ferocious battle over the next few years to hold its own in the car market and some observers question its ability to survive as an independent company over the long term.

The company's profits record has been unimpressive ever since the mid-1980s – in spite of several years of good conditions in the industry – with net income falling every year. In the first half of this year it made just $180m, down 47 per cent on the same period of 1989.

Over the past few months it has lost several senior executives, including Mr Gerry Greenwald, vice-chairman and heir apparent to Mr Iacocca.

While each of the big three has been losing market share, Chrysler's drop has been particularly large in recent months.

It accounts for about 9 per cent of the car market with Japan's Toyota challenging for the company's traditional position as the third largest US manufacturer.

Yet all this comes at a time when the company is in the throes of a $15bn five-year new product development programme and has to service some $18bn in long-term debt and unfunded pension fund liabilities.

Some of Chrysler's problems date back to the late 1970s. As part of its efforts to avoid bankruptcy, it was forced to sell its European operations to Peugeot of France. But in recent years the European arms of both Ford and General Motors have been reaping extremely good profits, which have cushioned these two from the worst of the US market.

Yet critics say Chrysler's problems also stem from a series of ill-judged moves in the mid-1980s when it bought the ailing American Motors from Renault, bought Gulfstream Aerospace in a diversification move that has been reversed, and decided not to invest in an additional chassis for a new generation of vehicles.

That means that it will not have a new range of products to present to consumers until the end of 1992, when cars based on its new LH chassis will start hitting the market. Until then, critics say, its car model range will look tired. And if the LH range is not a winner, the company will be in severe trouble.

On the plus side, the company is faring much better in other parts of the vehicle market. It dominates the field of minivans. This is a market segment Chrysler invented in the mid-1980s. It is becoming very crowded as a rash of imitators rushes in, but Chrysler is expected to remain the dominant player, helped by a revamp this autumn of its model range.

Similarly, the company's Jeep subsidiary faces extremely tough competition in the fast growing market for so-called sports utility vehicles.

The company could clearly benefit from additional tie-ups with foreign manufacturers, both to give it a greater exposure in Europe and the possibility of extra models for the US, particularly in the subcompact range, where it has no offering.

Chrysler has a close relationship with Mitsubishi of Japan, which includes a joint manufacturing operation in the US. But the US company has cut in half the 21.8 per cent stake it used to hold in Mitsubishi and there are persistent suggestions that relations have grown cooler.

The betting in Detriot is that the company is likely to form some sort of alliance with Fiat of Italy, with which it is believed to be holding intensive talks. Chrysler, runs the argument, could gain European exposure, help with new product development and access to Fiat's small and very successful Tipo model.

Perhaps significantly, Chrysler recently broke off plans to build a new sports utility vehicle with another potential European partner, Renault, although it insisted it still plans to go ahead with the model.

Another question mark hanging over the company is the succession to Mr Iacocca, whose reputation as an industrial folk-hero has been somewhat tarnished by Chrysler's lacklustre performance in recent years. Critics suggest that after the drama of pulling the company back from the grave he let his grip relax in the mid-1980s.

In the wake of Mr Greenwald's surprising decision to leave the company, Mr Iacocca agreed to remain as chairman past the expiration of his current contract in December next year.

Some critics maintain that he has stayed too long at the top and the company would benefit from a change of style. However, in the difficult market conditions, and amid a spate of poor publicity, Mr Iacocca's continued presence does give the company a symbol of stability.

The two chief candidates to succeed him are Mr Robert Miller, a 48-year-old finance man who is vice chairman of the group, and Mr Robert Lutz, 58, who heads Chrysler's automotive operations.

The cool, handsome and cosmopolitan Mr Lutz is probably the front runner. The son of a Swiss banker and a former jet pilot, he was a successful chairman of Ford of Europe before joining Chrysler four years ago. He has prime responsibility for the LH programme.

He has a crucial role in Chrysler's programme to cut its costs by $1.5bn a year through a host of projects, including plant closures, staff reductions, closer monitoring of health claims and pressure on equipment suppliers' costs.

Mr Lutz says the difficulties the company faces bears no relation to the crisis of 10 years ago. Apart from anything else, the company's cash position is very strong.

Even so, most analysts believe the company is in for a bumpy ride for the next two years until it wheels out those vital new models.

Martin Dickson

PROFILE: Robert Stempel

New chief, old problem

THE WORLD'S largest automobile group enters the 1990s with a new chairman facing an old problem: can General Motors reverse the long slide in its US market share against increasing Japanese competition?

The new chairman is Mr Robert Stempel, who took over at the start of August from Mr Roger Smith, who led GM on a controversial path throughout the 1980s and was hailed both as the company's saviour and a disaster.

General Motors was for decades the world's pre-eminent motor business, its Chevrolet and Cadillac marques symbols of motoring quality and the American way of life. But GM grew fat, bureacratic and complacent and was ill-prepared for the arrival in the US of new Japanese competitors.

In the 1980s Mr Smith tried to shake the business up and transform GM from a slow-moving bureaucratic monster into something altogether more nimble. But the results have been mixed.

He threw money at the problem. GM invested heavily in the latest technology in an attempt to renew its North American manufacturing base. It bought high-tech expertise through the takeover of Hughes Aircraft and EDS, the data processing business.

GM also set up a joint car-making venture with Toyota in California to learn lessons about the Japanese way of manufacturing, and it set about a reorganisation of its North American operations.

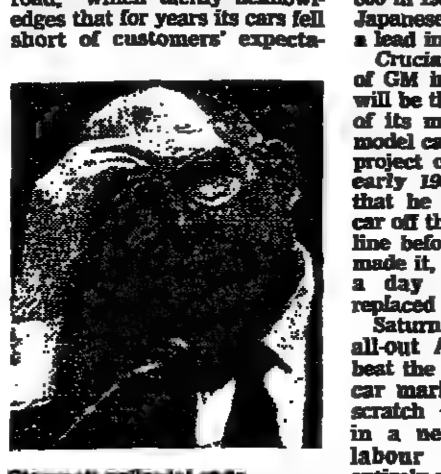
In spite of this GM's share of the US car market dropped from 46 per cent at the start of the decade to some 35 per cent at the end, as Japanese competitors ate deep into its customer base.

While GM's productivity has improved greatly, it is still the high cost US producer, carrying a large burden of excess manufacturing capacity. Furthermore, while its plants may be much more efficient, they still tend to be geared to the high volume production of single models, in a world where manufacturing flexibility will increasingly be a key to success.

On a more positive note, GM has fared much better in Europe where in the last three years a revitalised organisation has turned years of losses into record profits. And at home the organisation does seem to be putting behind it the dull look-alike vehicles which characterised its output in the 1980s.

It is the only one of the big three US manufacturers to have gained market share this year, albeit very modestly and due in part to low priced fleet sales.

It is trying a new marketing tack, with the advertising slogan: "Putting quality on the road," which tacitly acknowledges that for years its cars fell short of customers' expectations. But now, it says, they are greatly improved.



Stempel: collegial style

The advertisements include charts showing that while the company's defects per 100 cars have dropped from just under 800 in 1980 to about 200 in 1989, Japanese car makers still have a lead in this area of quality.

Crucial to public perceptions of GM in the next year or so will be the launch this autumn of its much heralded Saturn model car. This had been a pet project of Mr Smith since the early 1980s, when he vowed that he would drive the first car off the Tennessee assembly line before he retired. He just made it, in a private ceremony a day before Mr Stempel replaced him.

Saturn was conceived as an all-out American attempt to beat the Japanese in the small car market by starting from scratch – building a new car in a new plant using new labour practices and an entirely new dealer network.

But many of the project's original goals have been scaled back and others have been overtaken by changes in the market place.

Wall Street analysts believe the car will be a very strong competitor in the crowded small car market, produced in an impressive state-of-the-art plant. But given the amount of money thrown at the enterprise, and the fierce competition in the US market, it is questionable whether it will actually make money for GM for years to come.

Nevertheless, if it is a critical success it will give a big fillip to GM's public prestige. Image is half the battle in selling cars, and the company desperately needs to obliterate the view that it is on a losing streak if it is to push its market share back above 40 per cent.

Even if Saturn is a success, that still leaves the problem of transforming the rest of GM's plants into similarly lean and flexible operations – and the company has recently had the worst history of labour relations in the industry.

It is still too soon to say how Mr Stempel, aged 57, will steer through this minefield. Some within the company have been hoping for radical change, but the early indications are that the new chairman, who was president and chief operating officer of the company for the previous three years, will not make large departures from the policies of his predecessor.

His very appointment was something of a departure for GM, since he is an engineer by background – the first since 1953 to lead the business, which has been generally run by finance men. And the team he has gathered about him is dominated by engineers and people with direct experience of running vehicle operations. This is regarded in the industry as a good sign, since GM's problems are essentially those of its products.

At the same time, his management style seems to be more collegial than that of Mr Smith, who was often criticised for being headstrong and individualistic. Certainly, in his first press briefing since taking over as chairman, Mr Stempel went out of his way to emphasise the teamwork of the top management.

Mr Lloyd Reuss, 53, who has taken over Mr Stempel's job as president, added that it was now time to "move the organisational focus from what we are going to do to how we get it done. The how is always much more difficult than the what."

Martin Dickson

PROFILE: Harold Poling

Bean counter keeps an eye on the costs

FORD MOTOR is going back to basics in the 1990s. Diversification will enable it to concentrate on making only cars, trucks and money, say top executives.

Poling: arrived with hard man credentials

Given that the company proved pretty successful at vehicle- and money-making after the industry-wide slump of the early 1980s, the question is whether it can maintain that momentum.

Most analysts believe it cannot. But there is also widespread belief that there is no better person to lead the company through the expected tough times ahead than the man who took over as chairman in March this year.

The decision to reverse the diversification of the past had been taken when Mr Harold "Red" Poling moved from the president's to the chairman's office following the earlier-than-expected retirement of Mr Donald Petersen.

Mr Poling arrived with impeccable hard man credentials.

He is a 40-year Ford veteran, who rose rapidly through the ranks. The late 1970s saw him as chairman of Ford of Europe. By keeping costs firmly in check, Mr Poling ensured that Ford of Europe made spectacular profits while business at the parent company in the US languished.

It is not hard to imagine a Ford in the late 1990s as an even bigger retailer of vehicles

He returned to run Ford's North American operations in 1980 and became president five years later. Mr Poling, more than any other, has been identified with the $3bn-worth of North American fixed costs reductions which laid the groundwork for Ford's string of handsome profits in the late 1980s.

These events mean that Mr Poling, an accountant by training, has had trouble shedding the "bean counter" image, even though he has been a professional manager since 1977.

The other side of Ford's success was product. It made attractive models which the public liked, and made them with considerably greater emphasis on quality than in the past.

Much of the credit for that went to Mr Petersen, an engineer and, in the Detroit jargon, a "car guy."

Now that the car guy has gone and the company is headed by a bean counter, it faces greater challenges on several fronts.

Competition in Europe, which generates most of Ford's automotive profits these days, is getting tougher.

Ford has lost some market share recently. Nissan, Toyota and Honda are well advanced with their European production plans, and other Japanese companies are expected to follow.

Western European sales have been buoyant for several years, but the market is overdue for a downturn. And while Ford's competitors, including General Motors, have been looking to expand into eastern Europe, Ford has taken a much more cautious approach. It is a scenario which will mean tighter margins all round.

To keep down costs, Ford is forging ad hoc joint ventures with competitors

The cost-cutting measures Ford made in North America in the early 1980s were relatively easy. "Further cost reductions will become progressively more difficult," says Mr Karl Ludvigsen, of Ludvigsen Associates, a motor industry consultancy.

At the same time, Ford will face renewed competition in North America.

It will come from General Motors, which is fighting back on a broad front with better products and improved quality, and from Japan, whose transplants are now building up volumes.

In addition, all car makers are facing Japanese competition in the luxury car market for the first time. Models such as Toyota's Lexus and Nissan's Infiniti are pitched at Ford's Continental and Town Car models which have traditionally provided considerable profits per car.

Not that Ford – or any company selling cars in America is making much money these days. All companies are locked in a debilitating round of incentives and cheap financing in order to keep sales moving. Mr Poling admitted at Ford's annual meeting this year that all this promotional spending was costing the company $4bn on an annualised basis.

Ford acknowledges the challenges. It says it will invest more in the first half of the 1990s than it did in the second half of the 1980s, which was $25bn. But the money will take a toll on profits, the company warns.

A lot needs to be spent partly to make up for lack of plant modernisation and new product investment in the 1980s – at a time when the company was spending on its diversification.

There is wide recognition within the company that some of its products, most notably its powertrain components, are well behind those of rivals in terms of sophistication and efficiency.

Some progress is being made. A new modular V6 and V8 engine is going into production in America, though the European Escort being introduced will not have the new multi-valve engine for another year.

Other new vehicle programmes – so vital to remain competitive in the market – have been delayed. The new Taurus/Sable, a mainstream US model, will now not appear until 1997 at the earliest, three years late.

Western European sales, buoyant for several years, is overdue for a downturn

That in turn will mean a considerable delay for the European Granada/Scorpio replacement, which is to be built off the same chassis.

That means these Fords will have been around for 12 years old by the time they are taken off the market. Rival Japanese products, meanwhile, are renewed every four years.

Ford will be paying for much of its plant and product investments with proceeds from sales of its non-automotive interests, such as steel making, aerospace, car rental and agricultural tractor operations.

It has no intention of selling its recent automotive acquisitions, Aston Martin and Jaguar. While Jaguar is not the high financial flyer that it was, Ford has plenty of faith it its longer term value.

However, the £1.6bn spent on its purchase could have been earning Ford estimated annual interest of £250m, according to Mr Krish Bhaskar, director of the Motor Industry Research Unit in Norwich.

In order to keep down the cost of bringing new models on to the market, Ford is continuing to forge ad hoc joint ventures with competitors.

It has a number of North American ventures with Mazda, in which it holds a 25 per cent stake. It buys Mazda-designed small cars for North America from Korea. Other Mazda projects are expected to follow, particularly given the Japanese company's desire to be a producer in a united Europe.

Ford is picking other partners as well: Volkswagen, with which it has an all-embracing agreement in Brazil and Argentina, and a separate minivan agreement for Europe; Fiat's Iveco, with which it is a junior truck-making partner in Europe; and Nissan, with which it is making a sport-utility vehicle in Europe and a minivan in North America.

Given all these joint ventures and the importance of maintaining good quarterly results, it is not hard to imagine a Ford in the late 1990s as an even bigger retailer of vehicles designed and manufactured by rivals.

Richard Feast

Eastern European markets are opening. **Ian Robertson** reports on developments

East Germany tops shopping list

FOREIGN manufacturers were quick to grade opportunities in eastern Europe according to location. East Germany emerged in the forefront with imminent prospects of unification and a place in the European Community. The industry and infrastructures of Czechoslovakia, Hungary, Poland and Yugoslavia were ranked next with the USSR viewed as a special case and the other East European countries rated some way behind.

Cultural alliances as in West and East Germany, as well as long-standing commercial ties have brought western producers such as Volkswagen and Fiat to the fore in dealings with eastern Europe. Similar considerations have hampered negotiations by Japan where the leading producers are concentrating instead on stepping up exports to the region.

Toyota has been evaluating opportunities in Czechoslovakia. Isuzu has been looking at joint Eastern Bloc opportunities with General Motors and similarly Mitsubishi with Daimler-Benz. Daihatsu also recently lost out in Poland. Only Suzuki, in Hungary, has secured a foothold so far.

Construction of an assembly plant begins in September with first output of Swift models scheduled for October 1992. First year production is expected to be 15,000 units rising to 50,000 per year of which 30,000 will be sold in Hungary.

Lured by the prospect of a doubling of the Eastern Bloc's annual 2m car market within the decade as well as access to cheap skilled labour, western vehicle manufacturers nevertheless face formidable risks. Outdated technology and high vertical integration mean that both the vehicle and components industries are disorganised and inefficient. In East Germany, although higher than in Poland, Czechoslovakia or the USSR, productivity remains at only 40 per cent of West German levels.

Absorption by West Germany would mean a rapid reduction in overmanning levels estimated at 35 per cent with job losses in prospect.

East Germany's automotive industrial infrastructure has been allowed to run down and no provision has been made for depreciation and replacement – within the existing structure its products cannot be priced competitively.

Enormous capital expenditure is required to get the sector back on to a sound economic and environmental footing. In many cases, it will be more effective to scrap existing obsolete plant and build all new facilities. Ultimately, the large inward investment under way could result in one of the greatest concentrations of new car plants in the world being located in the Eastern Bloc.

As soon as there is an injection of capital, labour costs, the region's prime perceived advantage, are expected to rise very quickly. East German workers have been paid on average the equivalent of DM1,200 per month based on a 44-hour week. This compares with DM3,500 in West Germany based on a 37-hour week.

The other problems of the Eastern Bloc are numerous and well documented. They include the lack of hard currency, inferior infrastructures, obstructive bureaucracies, an absence of banking laws and legal avenues for foreign trade, as well as enormous investment costs coupled with an extended payback period.

In spite of this, the list of new co-operative ventures is growing. Among the foremost:

□ **FIAT.** Has a history of involvement in eastern Europe's motor industry stretching back more than 20 years. It claims that more than half of annual car output in the region comprises Fiat derivatives. The company has agreements in the USSR, Yugoslavia and Poland and more are on the way. The emphasis is changing from licensing deals to direct equity participation and a rationalised component supply network, covering operations in both east and western Europe.

In the USSR, Fiat is embarking on a $7bn project to create capacity for an additional 900,000 cars per year at the Yelabuga complex, 1,000 km east of Moscow.

The programme has been scheduled in three stages with production of three separate car ranges along with the technology to build new engines and gearboxes.

The first stage involves production of Fiat's Panda model at an annual rate of 300,000 units from the end of 1992. In the second stage, Fiat designers and engineers will co-operate in the production of 300,000 1-1.1 litre hatchbacks per year based on Fiat's Uno series. The first car in this A93 project is due to come off the assembly line in late 1993 or early 1994.

The third stage of the Yelabuga programme is expected to output 300,000 larger models possibly derived from Fiat's Tempra. First output is planned for 1995/96. As part of this joint venture, Fiat has agreed to take a 30 per cent equity stake in the A93 project with the balance held by a new Soviet state car company, Yelaz. Some 100,000 cars, a third of A93 output, will be sold in western markets.

In Yugoslavia, Fiat has a production deal with Zavodi Crvena Zastava (ZCZ) in Kragujevac where an increase in its 18.5 per cent equity stake is under negotiation.

Fiat recently began production of its Uno in Yugoslavia with provision for exports to the west. Eventually, these basic Sting or Formula variants of Uno are to be sourced exclusively from Yugoslavia.

In Poland, Fiat is to single-source its new Micro range from next year. Initial output of 160,000 units is to be raised to over 200,000 in a project which the company admits would be unprofitable using western economies of scale. Fiat recently defeated Daihatsu for a contract to provide new technology for Poland's second car producer, FSO in Warsaw.

It is to build 120,000 Fiat Tipos per year beginning later in the 1990s and this could involve a joint venture with 50:50 capital participation. Fiat is planning to build an engine and gearbox plant in Poland to supply FSM and FSO.

VEHICLE PRODUCTION IN EASTERN EUROPE

Country	Vehicle	1988	1989
USSR	Cars	1,318,868	1,335,000
	Trucks	790,000	730,000
	Buses	84,000	85,000
Poland	Cars	295,337	298,000
	Trucks	46,800	47,000
	Buses	10,500	11,000
Yugoslavia	Cars	290,048	302,867
	Trucks	36,483	35,333
	Buses	3,901	3,463
East Germany	Cars	218,000	216,989
	Trucks	39,600	39,000
	Buses	1,630	1,600
Czechoslovakia	Cars	159,160	165,000
	Trucks	51,500	52,000
	Buses	3,500	3,300
Romania	Cars	106,000	107,000
	Trucks	17,400	17,000
	Buses	3,000	3,000
Bulgaria	Cars	20,000	20,000
	Trucks	6,800	7,000
	Buses	2,750	2,700
Hungary	Cars	–	–
	Trucks	2,063	1,087
	Buses	12,350	11,930
Eastern Europe	Cars	2,410,411	2,444,836
	Trucks	990,646	928,425
	Buses	121,631	121,993
Total		3,522,688	3,495,254

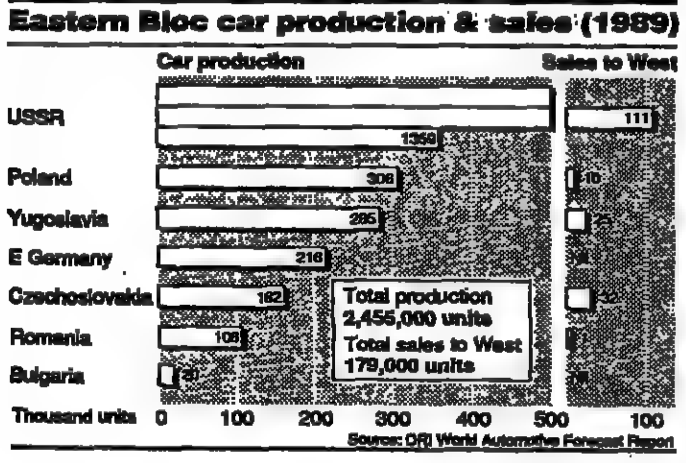
Source: EIU

LEADING VEHICLE PLANTS IN EASTERN EUROPE

Company/location	Products	Capacity (units)
USSR		
AZLK, Moscow	Moskvich; Aleko	180,000
GAZ, Gorsky and Saransk	Volga cars; trucks	240,000
IZHMAS, Ustynov	Moskvich	180,000
KAMAZ, Nabarezhnie, Tchelny	6-24 ton trucks	120,000
UAZ, Ulianovsk	Cars/small trucks	150,000
VAZ, Zaporoche	ZAZ; Tavria	170,000
ZIL, Moscow	Trucks; limousines	220,000
CZECHOSLOVAKIA		
AZNP, Mlada Boleslava	Skoda cars; vans; buses	180,800
TATRA, Koprivnice	Trucks; limousines	17,000
EAST GERMANY		
VEB, Sachsenring Auto Works, Zwickau	Trabant	140,000
VEB, SAW, Eisenach	Wartburg	80,000
IFA, Ludwigsfelde	Trucks	33,000
VEB Barkas, Karl Marx Sradt	Vans	33,000
POLAND		
FSO, Warsaw	Polski Fiat	100,000
FSM, Bialsko Biala	Fiat 126	250,000
HUNGARY		
RABA, Gyor	9-16 ton trucks	1,600
Csepel Auto, Szigethalom	Buses; trucks	13,000
Ikarus, Budapest	Buses	14,000
ROMANIA		
Motor Car Enterprise, Pitesti	Dacia	90,000
Oltcit, Craoiva	Oltcit	150,000
Motor Car Ent., Muscel	ARO 4WD	18,000
BULGARIA		
Assembly Plant, Lovech	Moskvich 2140	20,000
YUGOSLVIA		
IMV, Novo Mesto	Assembles Renaults	55,000
CIMOS, Koper	Assembles Citroëns, Peugeots	7,000
UNIS-TAS, Sarajevo	Assembles VWs	35,000
ZCZ, Kragujevac	Zastava	220,000
IKARUS, Zemun	Trucks; buses	1,000
TAM, Maribor	Trucks; buses	10,000
TOTAL LISTED CAPACITY		3,527,600

Source: EIU

Eastern Bloc car production & sales (1989)



Source: DRI World Automotive Forecast Report

Skoda Favorit

□ **GENERAL MOTORS.** In March 1990, GM signed a DM170m agreement with the Warburg works at Eisenach, East Germany to set up a planning joint venture Opel-AWE for both vehicle assembly and production of components.

Under this arrangement, assembly of 10,000 Vectra (Cavalier) models from imported kits is scheduled to get under way this October. A decision will be taken later this year on whether to build a plant for full production of 150,000 units but GM is still looking at alternatives both in east and western Europe. GM is to maintain a majority share in Opel-AWE which is to be integrated with the Adam Opel purchasing and sales organisations.

Elsewhere, GM has agreed to sell 150,000 engine management systems per year to Volga Auto Works of Togliatti in the USSR. They will be fitted to new Lada models. A deal to make catalytic converters in the USSR is being negotiated. A proposal to build up to 250,000 transmissions per year in Czechoslovakia is under review and production could begin late in 1992 with provision for export to Western Europe. This would generate credits to pay for exports of built up vehicles from Opel's West European plants.

The company is negotiating a co-operative deal with Bratislavske Automobilove Zavody (BAZ) for possible assembly of light commercial vehicles in Czechoslovakia.

GM announced in January that it was forming a joint venture with Raba, the Hungarian car and engineering group, to build up to 200,000 engines and assemble up to 30,000 Opel Kadett/Vauxhall Astra models per year. GM would have a 67 per cent interest in the project.

□ **VOLKSWAGEN.** Volkswagen began production of its Polo series at the East German VEB IFA Kombinat factory in Mosel, near Zwickau last May. Output at the Trabant plant is to rise to 50 Polos daily by the end of this year. A second phase provides for this to be increased to 100,000 cars per year by the end of 1992. The final stage of this programme will include the building of a complete car plant. Production is scheduled to begin in 1994 at 500 cars per day, doubling to 1,000 a day by about 1996.

Volkswagen signed a barter deal with East Germany in 1984, and in December 1988 the company took first delivery of a total consignment expected to involve 430,000 1.3 litre engines over a four-year period. These are being supplied in payment for plant and equipment delivered by Volkswagen for the engine factory. The same units are being fitted to locally produced Trabant and Wartburg vehicles.

In Yugoslavia, Volkswagen plans to increase its 49 per cent stake in UNIS-TAS with provision to raise production of cars and Caddy pick-ups by 40,000 units annually and in Czechoslovakia the company has been bidding hard for a stake in AZNP (Skoda).

□ **FORD.** After reviewing events in eastern Europe with caution, Ford announced an $80m investment in Hungary in July. A new plant is to begin production of ignition coils in spring 1992 and of fuel pumps one year later. Output is planned to reach 1.8m coils and 1.4m fuel pumps per year with provision for $60m-worth of exports per year. In turn these will fund additional sales of built up vehicles, largely Ford Fiestas, to the Hungarian market.

□ **MERCEDES-BENZ.** In February, Mercedes-Benz announced that it had signed a memorandum of understanding with East Germany's IFA-Nutzkraftwagen based at Ludwigsfelde, near Berlin.

Initially, Mercedes-Benz is to provide cabs for IFA's latest L60 medium truck, but plans for joint development and production of trucks have been modified as IFA's output has ground to a near halt following Germany's economic unification.

Instead, the two companies are considering assembly of Mercedes medium-weight trucks at Ludwigsfelde. IFA is the leading supplier of medium trucks to the Eastern Bloc and Mercedes-Benz is anxious to retain its new partner's customers. Speculation about an eventual takeover has been viewed with caution.

In the USSR, Mercedes-Benz has discussed with Mitsubishi the possibility of setting up a joint production base for 240,000-300,000 vehicles. The plant would assemble Mitsubishi commercial vehicles along with Mercedes' medium W124 car line when West German output is phased out. Also in Romania, Mercedes-Benz has been reviewing the potential for a bus manufacturing operation.

□ **RENAULT.** As well as being in the forefront of negotiations with Skoda, Renault has had a collaborative arrangement with the IMV factory at Novo Mesto in Yugoslavia since 1971. R5 models are being added to production at the plant and Renault has also been involved in Romania where its R12 has been produced under licence since 1969 under the Dacia name. In January of this year, Renault signed a daft agreement to provide technical aid to truck producer Avia of Czechoslovakia.

Renault's truck operation RVI is to assist Avia in the development of vehicles in the 3.5-5 tonne range. Production is due to begin in 1992, with output reaching 20,000 vehicles per year. Also in Czechoslovakia, Renault has agreed in principle to begin assembly of its Trafic vans with Bratislava Automobile Zavodi (BAZ). Production could begin at the end of 1992, with output rising from 15,000 to 30,000 vehicles per year.

Next on the western vehicle manufacturers' list, as well as the tussle by Volkswagen and Renault for Skoda, the Czech truck producer Tatra is looking for a western partner. Interested parties include Volvo, MAN and Fiat's Iveco division. Toyota, General Motors and Renault have been looking at joint utility vehicle opportunities with BAZ of Czechoslovakia.

Heavy truck producer Kamaz, of the USSR, is offering 49 per cent of its shares to outside investors in an attempt to fund a modernisation programme and, in Hungary, state owned bus maker Ikarus is expected to emerge from bankruptcy dealings as a privately held company. Daf, Renault and Mercedes have all been in discussions with Ikarus.

In the wake of the vehicle manufacturers, overtures have been made by western component producers to their Eastern Bloc counterparts.

Robert Bosch is to set up a joint venture with East Germany's FER Fahrzeugelektrik at Eisenach. Bosch is to hold a majority stake in the venture which will develop, produce and market electrical equipment and fittings for vehicles.

In Poland, the Italian company Sabelt is negotiating with the Motorization enterprise at Czestochowa on a joint venture to produce car seat belts. The Netherlands company Akzo opened a joint venture paint factory in June with the Tisza Chemical Combine of Hungary. The venture expects orders for its paint from the GM car project and is also hopeful of a contract from the Suzuki venture.

In May, the West German company Wegla signed a joint venture with the Unis group of Yugoslavia which produces strengthened glass for the automotive industry. More than 70 per cent of the output is exported to Volkswagen.

Kevin Done examines Fiat's ambitious plans in eastern Europe

Pole position in the race eastwards

FIAT is developing an ambitious strategy for eastern Europe, as it attempts to steal a march on its rivals in the world auto industry.

It is planning a car production network that would stretch from Turin in the alpine foothills of Piedmont and Palermo in Sicily to Yelabuga at the confluence of the Kama and Volga rivers in the Tatar approaches to the Urals.

The network will take in plants in Poland (in Warsaw and in Bielsko Biala close to the Czechoslovak border), and in Kragujevac in Yugoslavia, south of Belgrade.

Fiat claims that more than half of the 2m cars produced each year in eastern Europe and the Soviet Union are Fiat derivatives, the result of production accords stretching back more than 20 years. This total is to rise rapidly during the 1990s as a result of a series of deals struck in recent months.

In western Europe, Fiat is more confined within its domestic borders than any other leading car maker. It has no car plants outside Italy, and the Italian market still accounts for more than two-thirds of its western European car sales.

What it lacks in the west, it now believes, can be made up in the east, where its long-established links – most importantly in the Soviet Union, Poland and Yugoslavia – give it a head start over rivals.

The cars rolling off many assembly lines in eastern Europe may be familiar to western eyes under the names of Lada, Yugo and FSO, but in many cases they are Fiats by another name selling as Zhigulis (Lada) or Zastavas (Yugo) in their home markets. Most are based on earlier Fiat models such as the 124, 125, 127 and 128. Even more modern versions such as the Yugo Florida (sold as the Sana in the UK) designed by Giugiaro of Italy, still feature Fiat engines and gearboxes under the skin.

Fiat is developing rapidly beyond the traditional licensing and production agreements of previous decades as it seeks to establish its brand-names in eastern Europe.

Hitherto Fiat's financial exposure has been limited. It has not invested much of its own money in eastern Europe, but has sold and licensed technology. Gradually that is to change as its prepares to take equity stakes in the eastern European operations, as it has previously done only in Yugoslavia.

According to Mr Francesco Gallo, Fiat's executive vice president for international activities, the company's most crucial exposure in eastern Europe will be in quality. "We are going to guarantee the quality control of the cars. These cars will have to be identical in quality with ours, and we must ensure that this happens. We will be producing products that will come into our network. If the product is no good, that is a big exposure, that is a major risk."

Fiat's ambition is to create an integrated production network with up-to-date models produced in eastern Europe at quality levels that will also allow the cars to be sold in western markets under Fiat group nameplates. At the same time it is planning an interchange of components between the different countries, much as Comecon's central planners sought to impose, but only achieved imperfectly.

Fiat has agreements in place in the Soviet Union, Yugoslavia and Poland.

- Inevitably the biggest challenge is the Soviet Union. Fiat's earliest involvement in Russia pre-dates the revolution, but in the post-war era its breakthrough came when it was chosen as the Soviet Union's partner to design and build one of the world's biggest car plants at Togliattigrad on the banks of the Volga.

The contract for a plant to produce 660,000 cars a year based on the Fiat 124 was signed in 1966 with the first cars rolling off the line four years later in 1970.

Now Fiat is embarking on a new project, which it valued earlier this year at $7bn, aimed at creating an additional 900,000 cars a year production capacity, enough to almost double the Soviet Union's annual production of 1.3m-1.4m.

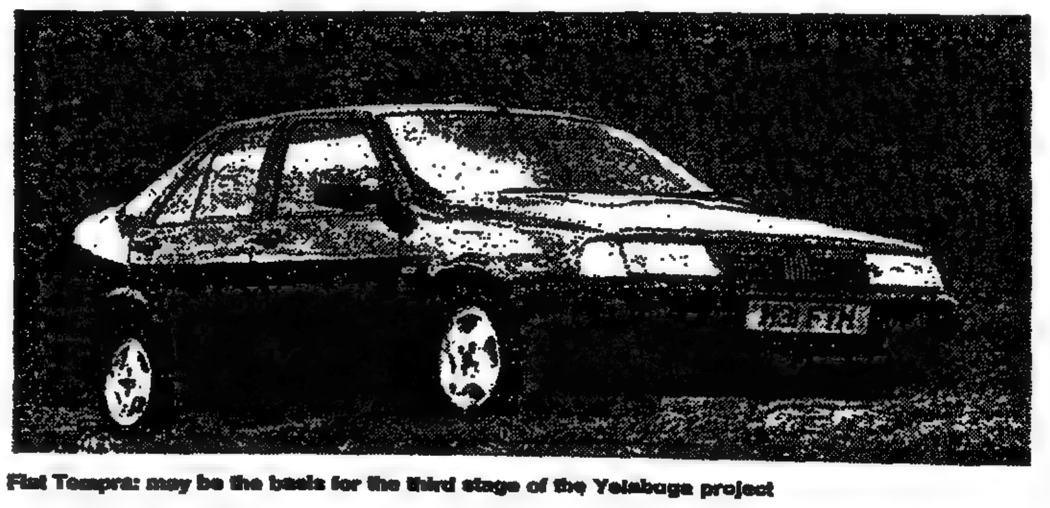
The large car complex to be built at a site on the banks of the Kama river at Yelabuga, is to be developed in three stages, each producing 300,000 cars a year. Fiat will play a leading role in all three phases providing the industrial leadership for the production in the Soviet Union of three separate car ranges, and the technology to produce 900,000 engines and gearboxes a year.

Fiat agreed late last year to enter a joint venture to produce 300,000 1-1.1 litre cars a year, code-named A93, at the Yelabuga site, about 1,000 km east of Moscow.

It has since agreed too to lead the development of the first stage at Yelabuga which will be for the production of Fiat's small Panda car, which will also be produced at a rate of 300,000 cars a year from the end of 1992.

Under the present plan Fiat will take a 30 per cent equity stake in a joint venture to produce the A93 giving it its first direct financial exposure in the Soviet Union, with the remaining 70 per cent held by Yelaz, a new Soviet state car company that has been formed for the Yelabuga project. The equity capital could be about $400m.

Flat claims more than half the 2m cars produced each year in eastern Europe and the Soviet Union are Fiat derivatives



Fiat Tempra: may be the basis for the third stage of the Yelabuga project

The project investment in the A93 is said to be around $1.8bn and the first car is scheduled to come off the assembly line by late 1993 or early 1994.

Most importantly for Fiat this part of the Yelabuga project will break new ground for it in the Soviet Union, as the car will be sold in the local market under a combined Fiat and Soviet nameplate, the first time that a western car marque has been allowed in the Soviet car market.

About 100,000 cars or a third of the output of the A93, a three and five door hatchback, will be sold in western markets, possibly under the Fiat group's Innocenti nameplate.

Fiat will be responsible for providing the technology for sheet metal pressing, body assembly, painting, large plastics components pressing, final assembly and testing.

The third stage of the Yelabuga project will be based on the production of a larger Fiat car, possibly the medium-sized Tipo or Tempra, which have been launched in western Europe in the last two years. Production of this phase is scheduled to begin in 1995/96.

Unlike the joint venture A93 car, the deals for the Panda and possible Tipo/Tempra production will be more traditional production and technology contracts along the lines of the earlier Togliatti project.

- In Yugoslavia Fiat signed its first deal for the local production of its cars at the Zavodi Crvena Zastava (ZCZ) plant in Kragujevac as long ago as 1954. In 1968 it acquired an 18.5 per cent equity stake for $25m, and it is negotiating an increase in this stake to a substantial minority or even a majority holding.

ZCZ accounts for the majority of Yugoslavian car output with the Yugo 45/55 based on the Fiat 127 and the Yugo Skala or 311/511 based on the Fiat 128 and has 70-80 per cent of the local market.

"We want to integrate the Yugoslavian plants in our general European strategic production network with an interchange of products and components," says Mr Gallo.

Importantly, Fiat has begun assembling in Yugoslavia a basic version of its Uno small car, which will be for sale both locally in Yugoslavia and in western markets.

As a demonstration of Fiat's determination to build a pan-European production network to serve its western and eastern European sales networks, it began last month to sell ZCZ's Yugo 45/55 range in Italy under its Innocenti brand-name calling it the Koral 45 and 55. The Innocenti marque will be used for "popular, low-cost cars", says Mr Gallo.

- Fiat's first move to single source a car from eastern Europe for sale in both east and west was the Fiat 126, the smallest car in its range.

Production began under licence in 1974 at the FSM plant in Bielsko Biala in Silesia. By the late 1980s Fiat had moved all production of an updated version to Poland, and next year will see the launch of a new generation mini car, the Fiat Micro, developed by Fiat for exclusive production in Poland. Output will start at 160,000 a year but is expected to rise to more than 200,000.

Recently Fiat defeated Daihatsu of Japan to provide new technology for Poland's FSO in Warsaw, which will be producing 120,000 Fiat Tipos a year later in the 1990s.

هكذا من الاعلان

Even more extraordinary than the appearance of this multi-limbed alien is the cleverness of its brain. And that is exceeded only by the nastiness of the world it creates. Imagine some never-to-be-wished motoring nightmare. A blown tyre on a B-road and an oncoming truck, perhaps. Why not throw in a sharp bend, a touch too much speed, and some ice?

SIMULATOR DUPLICATES TREACHEROUS ROAD CONDITIONS

No matter how chilling the scenario you conjure up, this driving simulator will have taken Mercedes-Benz cars and engineers there already. It will have helped to ensure that safety elements built into every Mercedes-Benz – whether they're braking, powertrain, steering or suspension systems – are as effectively designed as it is possible to make them.

Within the high-tech confines of this unique Mercedes-Benz research tool, the entire world of driving experience can be reproduced.

Every driving sensation, every road condition, every conceivable traffic and climatic hazard is on tap. (It is possible, for example, to generate enormous simulated lateral acceleration, the sort of cornering stress that only expert drivers can draw from the world's most exotic production sports cars.)

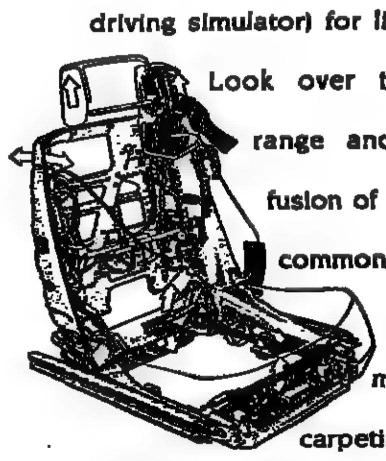
And the benefits to be reaped from such research – be it the design of a Mercedes-Benz seat or direction indicator, a rear suspension linkage or foot pedal – are all the more conclusive for the exceptional realism of the simulator testing.

MERCEDES-BENZ DRIVING SIMULATOR CAN CONTAIN AND TEST EVERY MODEL UP TO THE S-CLASS SALOON FOR RESEARCH PURPOSES.

The world according to Mercedes-Benz

Luxury Sits Easily With Safety

But never suppose there is no room in the heart of a Mercedes-Benz designer (or driving simulator) for life's little comforts.



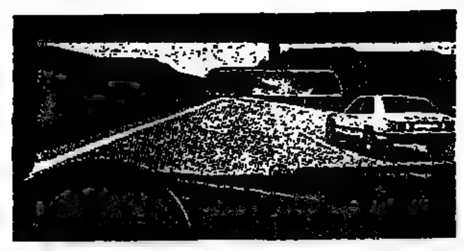
NEW MAGNESIUM SL SEAT FRAME MARRIES PROTECTIVE STRENGTH AND COMFORT.

Look over the current Mercedes-Benz range and you'll discover a careful fusion of the rational and aesthetic: the common sense of a flawless driving position, the warmth of new, more luxurious fabrics and carpeting; the support and comfort of redesigned seats that are yielding yet firm enough to inhibit tiredness on long journeys.

And, as the car's aerodynamic efficiency lets it cleave the air in near silence, and as the rubber bushing of the subframes and the generosity of the insulation so effectively isolate the interior from mechanical vibration and road noise, yet another priority becomes apparent. Mercedes-Benz engineers discovered long ago that *what you don't experience* in a car is just as important as what you do.

Ergonomically Ideal Controls And Instruments

Never has a Mercedes-Benz driver been more ably assisted by the crisp logic of the instrument panel and control layout than he is today. Both are models of clarity, perfected in the crucible of the driving simulator; every important control is placed within natural and instantaneous reach, and only information that is crucial to driving safety is grouped directly in the driver's field of view. There is no distracting gimmickry, no digital nonsense, and there are no pseudo-electronics.



SIMULATOR CREATES REALISTIC DRIVING ENVIRONMENT

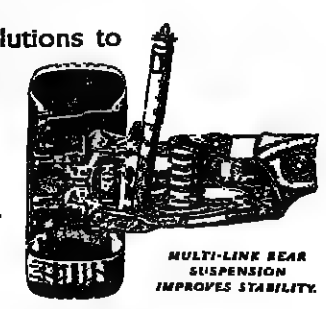
Once in the driver's seat, your hands fall onto an ergonomically satisfying steering wheel. And on the move, the power-steering assistance varies subtly to complement your own inputs at all speeds, and to ensure maximum feedback sensitivity – precision without exertion – another vital safety and comfort bonus. Yet another bonus is the simulator's ability to test driver reaction to stressful conditions. By learning how human beings actually react in emergencies, as opposed to how they believe they would react, Mercedes-Benz engineers are better placed to design car controls that will assist accident avoidance.

Advanced Suspension Improves Handling Finesse

Underpinning the assured and reassuring on-road behaviour of all models, are suspension systems engineered to ensure maximum tyre contact and grip. Multi-link rear suspension, for instance, is now used extensively. This Mercedes-Benz invention disciplines self-steering and toe-in tendencies that the rear wheels of all cars are prone to under extreme conditions.

The independently located damper and spring arrangement of the wishbone-mounted front suspension combines the compliant, accommodating ride of long-travel coil springs with the control that dampers anchored close to the wheel-hubs provides. Such optimised front and rear suspension design assures the driver of enviably safe and neutral handling and exceptional comfort at all times.

In the motor industry, no less than in other fields, the search for the best solutions to universal problems is a painstaking business.



MULTI-LINK REAR SUSPENSION IMPROVES STABILITY.

Making the driver's environment as safe and comfortable as it is stimulating, is an ideal that Mercedes-Benz engineers continue to try to perfect as they re-enter, again and again, *the unique world of their driving simulator* in search of answers that only it is equipped to give.

ENGINEERED. LIKE NO OTHER CAR IN THE WORLD.

WORLD CAR INDUSTRY 6

THE SINGLE MARKET

Barriers may be slow to fall

THE WESTERN European new car market, the largest in the world, is "riddled with barriers to trade and competition," according to a report published by the UK National Consumer Council earlier this year. "The European motor industry has been able to push up prices and reduce choice to consumers."

The report, based on research by Professor Garel Rhys and Mr John Bridge of the Cardiff Business School, claims that the present curbs by some member states of the European Community on Japanese car imports are costing consumers about £1.9bn a year.

If these restrictions on Japanese car imports were lifted, prices of Japanese cars would fall on average by about 20 per cent, it maintains.

The most contentious issue concerns Japanese transplants

On the other hand, if the bilateral restraints in Italy, France, Spain, Portugal and the UK were to be replaced by EC-wide restrictions, consumers would continue "to foot this bill every year as long the restrictions last."

In theory the creation of the single European market in 1992 should spell the end of the long era of protectionism, which has allowed West European car makers to shelter behind quota restrictions – official and unofficial – against Japanese car imports in several leading European markets.

The EC has for long been in disarray over the formulation of a motor industry trade policy, however, and the contours of a possible consensus that have finally begun to emerge this year suggest that some form of EC-wide restraint on Japanese car imports will remain, at least for a transition period of hitherto unspecified length.

In the corridors of power in Brussels and in the capitals of member states, the industry lobby has tended to overshadow the voices of consumer interests.

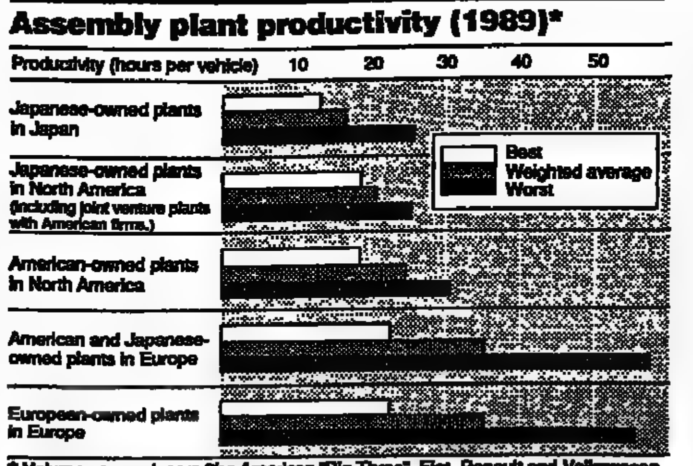
Peugeot and Renault of France and Italy's Fiat group have tended to be in the vanguard of the protectionist industry lobby calling for continued safeguards to allow the traditional European car makers additional time to adjust, restructure and catch up with their Japanese rivals.

For Mr Raymond Levy, chairman and chief executive of Renault, the case for protection is clear-cut and it is echoed elsewhere in the industry.

"After conquering North America, the Japanese are turning on Europe. The immediate consequence will be surplus production capacity . . . with the serious threat of a deteriorating trade balance . . . The risk is clear to see: factory closures, even whole corporations shutting down, massive redundancies – in short the very survival of the European industry is at stake."

While the language is sometimes more restrained the leaders of companies such as Volkswagen of West Germany and Ford of the US have also counselled caution. "An open-door policy to Japanese assembly plants without some strategy to ensure that they include a reasonable level of European economic benefit, employment and added value begins to look like a local form of harakiri," says Mr Lindsey Halstead, chairman of Ford of Europe.

Assembly plant productivity (1989)*



* Volume car producers (the American "Big Three", Fiat, Renault and Volkswagen in Europe and all of the companies from Japan)

Source: International Motor Vehicle Programme

The Japanese industry has by and large preferred private lobbying to public attack in the battle to gain the ear of Brussels, but earlier this year Mr Yoshikazu Kawana, president of Nissan Europe did break cover at the Geneva motor show to put the Japanese case. It was "in the interest of European industry to live with open markets," he said.

The European industry needed a greater competitive edge in order to establish itself in markets where there was little or no indigenous vehicle production industry. "The real battle will be fought on these neutral territories, where neither Japanese nor European manufacturers have a home advantage."

After bitter wrangling in Brussels, EC governments authorised the European Commission earlier this year to negotiate with Tokyo "transitional" restraints on Japanese car sales after 1992. The commission judges such arrangements to be politically necessary to persuade Britain, France, Italy, Portugal and Spain to eliminate the long-standing national import curbs, which are incompatible with the planned single market.

It does not aim to enshrine the restraints in a formal agreement. Instead, it is seeking a bilateral deal, whereby Japan would undertake to "monitor" its car sales in Europe, so as to keep them within limits prescribed by the EC. Japan has indicated that it is prepared to contemplate some restraints on exports, though not beyond the end of the century.

Exactly how these arrangements might operate has yet to be determined.

However, once the EC's internal customs barriers fall, ways would have to be found to prevent leakage of Japanese cars from open markets such as West Germany to protected ones. Current thinking favours reliance on national registration controls or commitments by dealers to sell the cars only in their home markets. Both measures would segment the single market for the EC's most important industry.

The most contentious issue, though, concerns Japanese-owned EC "transplants," Japanese assembly plants operating in Europe.

The Community wants to include these in the overall restraints by counting their output against total direct imports from Japan.

Such a stance would still allow the UK Government to insist that UK-built Japanese cars are gaining free access in all EC markets.

Completing the internal market for cars has proved to be one of the most intractable problems for the 1992 programme and remains the main outstanding issue to be tackled.

The National Consumer Council report argues that "quotas and voluntary export restraints (VERs) limit the import of Japanese cars into France, Italy, Spain, Portugal and the UK.

"Differing national technical standards and tax regimes hinder the free flow of goods within the Community and the development of the single market.

In addition, the motor industry's selective distribution system, which was granted a 'block exemption' to Community competition rules in 1985, restricts and distorts competition still further."

The Council maintains that the way these issues are settled will crucially affect the choice and price of cars available to consumers.

The decisions the Community takes "will provide a clear measure of its commitment to its consumers and to demolishing the spectre of Fortress Europe."

Kevin Done

WEST EUROPEAN NEW CAR REGISTRATIONS January–June 1990

	Volume (Units)	Volume Change(%)	Share (%) Jan-Jun 90	Share (%) Jan-Jun 89
TOTAL MARKET	7,222,000	−0.6	100.0	100.0
Volkswagen (incl. Audi & SEAT)	1,095,000	+2.4	15.2	14.7
Fiat (incl. Lancia, Alfa Romeo & Ferrari)	1,074,000	−3.8	14.9	15.4
Peugeot (incl. Citroën)	929,000	−1.8	12.9	13.0
General Motors (Opel/Vauxhall, US* & Saab)	857,000	+3.1	11.9	11.4
– Opel/Vauxhall	820,000	+4.0	11.4	10.9
– Saab**	32,000	−17.0	0.4	0.5
Ford (Europe, US* & Jaguar)	834,000	−2.0	11.6	11.7
– Ford Europe	821,000	−1.7	11.4	11.5
– Jaguar	10,000	−14.4	0.1	0.2
Renault	728,000	−0.7	10.1	10.1
Mercedes-Benz	225,000	−1.8	3.1	3.1
Rover	205,000	−5.0	2.8	3.0
Nissan	199,000	−7.7	2.7	3.0
BMW	197,000	−7.0	2.7	2.9
Toyota	186,000	+3.2	2.6	2.5
Mazda	142,000	+15.4	1.9	1.7
Volvo	133,000	−9.1	1.8	2.0
Total Japanese	800,000	+2.7	11.0	10.7
West Germany	1,574,000	+2.8	21.8	21.1
Italy	1,363,000	+1.8	18.9	18.4
France	1,188,000	+5.4	16.4	15.5
United Kingdom	1,066,000	−10.9	14.8	16.5
Spain	541,000	−9.9	7.5	8.3

*Cars imported from US and sold in western Europe
**GM holds 50 per cent and management control of Saab Automobile

Source: Industry estimates

John Griffiths explores the retailing and distribution of vehicles

An age of uncertainty dawns

AN AGE of uncertainty is dawning for vehicle manufacturers, dealers and the manner in which cars are distributed and sold in Europe.

Investigations at European Commission level and in the UK are likely to have a bearing on whether the exclusive franchise system will survive after 1995. This is when exemption from Treaty of Rome competition rules which has allowed its survival is due for renewal.

Until earlier this year, there was a fairly high level of confidence in the industry that "block exemption" would continue.

Brussels had appeared to accept the trade and industry's contention that because cars are so expensive, complex and safety-sensitive, they needed an exclusive distribution and sales system which could make the necessary heavy investments in parts and service operations to keep vehicles satisfactorily on the road.

In early summer, however, the European Commission and the UK's Monopolies and Mergers Commission announced separately, but almost simultaneously, that they intended to investigate price disparities between national markets within the EC, and whether the exclusive franchise system contributed to them, to the disadvantage of consumers.

Consumers associations, and notably Brussels-based *Bureau Européenne des unions de consommateurs*, have argued for years that motorists in the UK and some other Community countries are being charged higher prices than justified by manufacturers taking advantage of outdated customs, practices and perceptions of what the market will bear.

The UK's National Consumer Council two months ago issued a report claiming that British motorists were paying about £2,000 more than they needed for small to medium-sized cars as a result of policies to protect Europe's motor industry from Japanese competition.

These policies include restrictions on direct Japanese imports and, allegedly, the refusal of dealers – under pressure from their vehicle suppliers – in countries where cars are cheap to supply them to other, high-priced EC markets.

For their part, manufacturers have argued that cross-border price differentials are less than claimed and they are are explained adequately by factors such as differing national taxation regimes, exchange rate variations, and even different specifications in individual markets.

These arguments have continued – with neither side being wholly persuasive – even since the block exemption rules were set up in 1984 with the intention of bringing about a more homogeneous market.

A quid pro quo for the industry being granted block exemption was that manufacturers make available to dealers vehicles similar to those the dealer normally sold, but with the specification of another Community country.

For example, a British motorist was entitled, and to be able, to buy a right-hand drive car in Belgium or Luxembourg. EC new car prices should move within a predetermined band. Investigations would be started if prices varied by more than 18 per cent for a short period, or by more than 12 per cent over a period of a year or more, although some countries with disproportional high tax regimes such as Denmark were excluded.

The process is under way, triggered in part by reports from consumer groups claiming differentials have widened outside the permitted bands.

The UK inquiry, at least, is expected to report within a year. The EC inquiry is expected to take longer but its conclusions are awaited with much more concern by the industry because of their pan-European implications. Judging by comments made by the Commissioner responsible for competition in the motor industry, Dr Klaus Stover, at a Motor Law conference in London recently, there is cause for the industry to worry.

He said it was certainly conceivable that price differential problems could lead to block exemption being withdrawn, and appeared to take a critical view of the industry.

He indicated that the Commission would be investigating not just the prices paid by consumers, but by dealers to manufacturers in in different member states. He described as "inexplicable" some of the product specification differences between similar models sold in different countries, and which had been used by the industry as an explanation for price differentials.

They are not the only matters of concern. Different franchise rules can be, and are, applied in individual member states; possibly putting the dealer network in some countries at a disadvantage to those in others. In some countries, manufacturers are directly involved in the sale of vehicles and have service-only dealers. As Dr Stover points out, that is hardly compatible with the concept of block exemption.

It is likely to be a year before the first hard conclusions emerge. By then, the deadline for renewal of the block exemption will be starting to come uncomfortably into sight.

The uncertainty will be particularly keenly felt by large public UK groups such as Inchcape, which almost alone among EC dealer businesses is actively seeking to set up pan-EC dealer networks. Through its Mann Egerton subsidiary, Inchcape has brought dealerships in France and West Germany, and is examining other market prospects.

Some, such as Mr Michael Williamson, chairman of the Appleyard group which has several dozen dealerships in the UK, quite happily assume that change is coming on a number of fronts which will transform not just the physical size and operating methods of dealerships but, in the longer term, the all-important relationship with manufacturers.

Ian Skelly, a dealership owned by Appleyard at Manchester, illustrates his point.

Opened in May last year, and after a careful look at some of the methods employed in US car retailing, the dealership is a large one by any standards. It covers eight acres, equivalent to five soccer pitches, and is well landscaped.

The main new car hall – it is a Volkswagen/Audi franchise – houses a restaurant and children's play area as well as dozens of cars. Serried ranks of well-prepared, late-model used cars occupy a floodlit, open areas to one side of the main building.

In another sector is a separate section for rather older used cars, which other dealers might consider the clearance section.

In the service areas, customers can watch their cars being serviced from an armchair or talk to the mechanic. The workshops operate 24 hours a day to reduce customer waiting times and increase throughput. A service customer can drop his car off at 8 pm and pick it up first thing the following morning.

The dealership is open until late evening and, says Mr Joe O'Donnell, the manager: "You'll soon be able to buy a car up until midnight if you want to. We're trying to break all the traditional rules – but if retailers are going to succeed then it'll be by meeting their customers' needs, not theirs."

Whether that will extend to manufacturers agreeing to multi-franchising is another question.

The central showroom, with four identical glass sides and entrances, could physically handle two or even four franchises without problem. Not least, the whole thrust of the marketing activity for the dealership has been the promotion of the Skelly name, with the make of new car almost secondary.

There seems little prospect in the short term of the big companies such as Ford – which limits to eight the maximum number of dealerships any one retailing and distribution group can own – agreeing to sharing a site with other manufacturers on this basis, no matter how attractive the idea might be to buyers.

Well, not in the UK, anyway, where manufacturers are concerned about the balance of power shifting too far in the direction of the large public dealer groups, which are a unique feature of the country.

Mr Williamson is not alone in wondering whether such attitudes will persist in the face of a serious market downturn. And whether manufacturers might then be so anxious to "move the metal" through whatever outlets present themselves so that their opposition to new car "supermarkets" would crumble.

Under those circumstances, block exemption would become irrelevant.

WORLD CAR PRODUCTION FORECAST (000s)	1989	1990	1991	1992	1993	1994
West Germany	4,564	4,538	4,556	4,584	4,642	4,703
France	3,409	3,360	3,306	3,345	3,394	3,521
UK	1,256	1,282	1,326	1,369	1,502	1,563
Italy	2,015	2,020	1,882	1,864	1,836	1,922
Spain	1,639	1,543	1,561	1,586	1,637	1,759
Netherlands	130	140	137	136	132	132
Belgium	309	339	310	354	391	400
Sweden	384	373	387	409	421	435
Western Europe	13,749	13,597	13,467	13,670	13,957	14,454
% Change	5.5	-1.1	-1.0	1.5	2.1	3.6
US	6,822	6,467	6,411	6,290	6,305	6,636
North America	7,835	7,759	7,587	7,510	7,581	7,935
% Change	-3.8	-1.0	-2.2	-1.0	0.9	4.7
Japan	9,052	8,902	8,924	8,967	8,976	9,099
% Change	10.4	-1.7	0.2	0.5	0.1	1.4
Australia	304	307	312	320	335	347
South Korea	860	1,098	1,369	1,641	1,823	1,993
Mexico	439	490	514	531	552	565
Brazil	731	444	472	570	673	714
Eastern Bloc	2,455	2,488	2,574	2,652	2,695	2,880
% Change	2.0	1.4	3.5	3.0	1.6	6.9
World	35,692	35,359	35,556	36,190	36,929	38,371
% Change	3.7	-0.9	0.6	1.8	2.0	3.9

Source: DRI World Automotive Forecast

Toyota's MR2 Turbo: a mid-engine sports car with 200 bhp

WORLD CAR SALES FORECAST (000s)	1989	1990	1991	1992	1993	1994
West Germany	2,832	2,946	3,009	2,951	2,917	2,987
France	2,274	2,367	2,283	2,315	2,379	2,449
UK	2,301	2,072	2,089	2,193	2,216	2,270
Italy	2,363	2,339	2,161	2,192	2,174	2,292
Spain	1,136	1,091	1,103	1,129	1,206	1,317
EC	12,274	12,221	12,108	12,270	12,439	12,902
Western Europe	13,424	13,353	13,250	13,452	13,649	14,140
% Change	4.0	-0.5	-0.8	1.5	1.5	3.6
US	9,867	9,777	9,798	9,653	9,729	10,022
North America	10,855	10,751	10,811	10,788	10,886	11,203
% Change	-6.8	-1.0	0.6	-0.2	0.9	2.9
Japan	4,404	4,540	4,681	4,636	4,758	4,903
Taiwan	369	409	422	438	462	480
South Korea	600	652	757	861	973	1,126
Australia	462	442	450	460	477	496
Asia Pacific	1,928	2,121	2,274	2,422	2,580	2,800
% Change	27.9	10.1	7.2	6.5	6.5	8.5
Mexico	275	283	297	303	317	327
Brazil	567	334	357	446	538	572
Latin America	1,213	984	1,032	1,135	1,249	1,301
Eastern Bloc	2,276	2,316	2,379	2,429	2,454	2,595
% Change	3.8	1.8	2.7	2.1	1.0	5.7
World	35,386	35,436	35,816	36,436	37,187	38,640
% Change	2.9	0.1	1.1	1.7	2.1	3.9

Source: DRI World Automotive Forecast

Kevin Done finds room for optimism among production forecasts

World sales to exceed 40m by 1995

WORLDWIDE new car sales are expected to grow modestly this year by about 1.7 per cent to some 35.97m following two years of strong growth in 1988 and 1989 according to the latest World Automotive Forecast published this month by DRI, the automotive analysts.

While western Europe and in particular North America are struggling to maintain demand, the countries of south-east Asia continue to grow at a substantial, though slower, rate than last year according to the study.

The main threat to the industry in the short to medium term is the crisis in the Gulf, but on the positive side significant long-term opportunities are expected to be created by the creation of the single market in the European Community and by the opening up of eastern European markets.

Worldwide new car demand is expected to falter next year with a marginal 0.2 per cent decline in sales, followed by four years of steady growth from 1992 to 1995, when worldwide new car sales are expected to exceed 40m for the first time.

In western Europe the largest regional car market in the world, sales are forecast to fall marginally this year by about 0.5 per cent to 13.35m from 13.42m last year, bringing to an end five successive years of record sales.

DRI suggests that sales will fall again in 1991 by some 1.1 per cent to 13.2m before beginning a sustained recovery in 1992.

New car sales in western Europe are forecast to rise by 2.3 per cent in 1992 to a new peak of 13.5m. Supported by further steady growth through the first half of the the 1990s new car demand is expected to reach some 14.47m in 1995.

Between 1990 and 1995 DRI forecasts that most of the traditional European volume car makers will lose market share with only Peugeot and Renault of France barely holding their ground. The total share of Japanese car makers in western Europe is forecast to jump from 10.8 per cent in 1990 to 13.5 per cent in 1995.

New car sales in North America have tumbled since 1987, apart from a small recovery in 1988, and little relief is in sight until 1992 according to the DRI forecast.

Sales fell by 10 per cent in 1987 to 11.29m from 12.54m in 1986. In spite of a 3.3 per cent rise in 1988 the downward trend was resumed last year with a 6.8 per cent drop to 10.86m. DRI is forecasting a further contraction in the market this year by 1.8 per cent to 10.66m and a fall of 3.1 per cent in 1991 to 10.33m.

The big three traditional US car makers are all expected to lose market share in the first half of the 1990s, with Ford, the main domestic success of the 1980s, losing ground particularly heavily.

According to the DRI forecast Ford's share of the US new car market will tumble to 17.2 per cent in 1994 from 22.1 per cent in 1989. General Motors, which is expected to halt this year, at least temporarily, the large erosion of its market share that occurred in the 1980s, is also forecast to lose further ground during the first half of the 1990s with a decline in market share from 35.2 per cent this year to 33.1 per cent in 1994.

Chrysler, the smallest of the traditional US "big three" car makers, is expected to be overtaken during the first half of the 1990s by both Honda and Toyota of Japan. Its share of US new car sales at 10.3 per cent last year is expected to drop to only 7.9 per cent in 1994, when Honda is forecast to capture 10.3 per cent of all US new car sales and Toyota 9.5 per cent.

Opportunities are expected from the creation of the single market and by the opening up of eastern Europe

While the presence of the three traditional US car makers in their domestic market continues to be eroded, the share of Japanese nameplates in the US new car market is forecast by DRI to jump from 26.1 per cent last year to 34.4 per cent in 1994.

Japanese car makers, which have enjoyed very strong growth in demand in their domestic market in the last two years, are expected to benefit from continuing buoyant sales throughout the first half of the 1990s, although the hectic pace of growth is expected to slow.

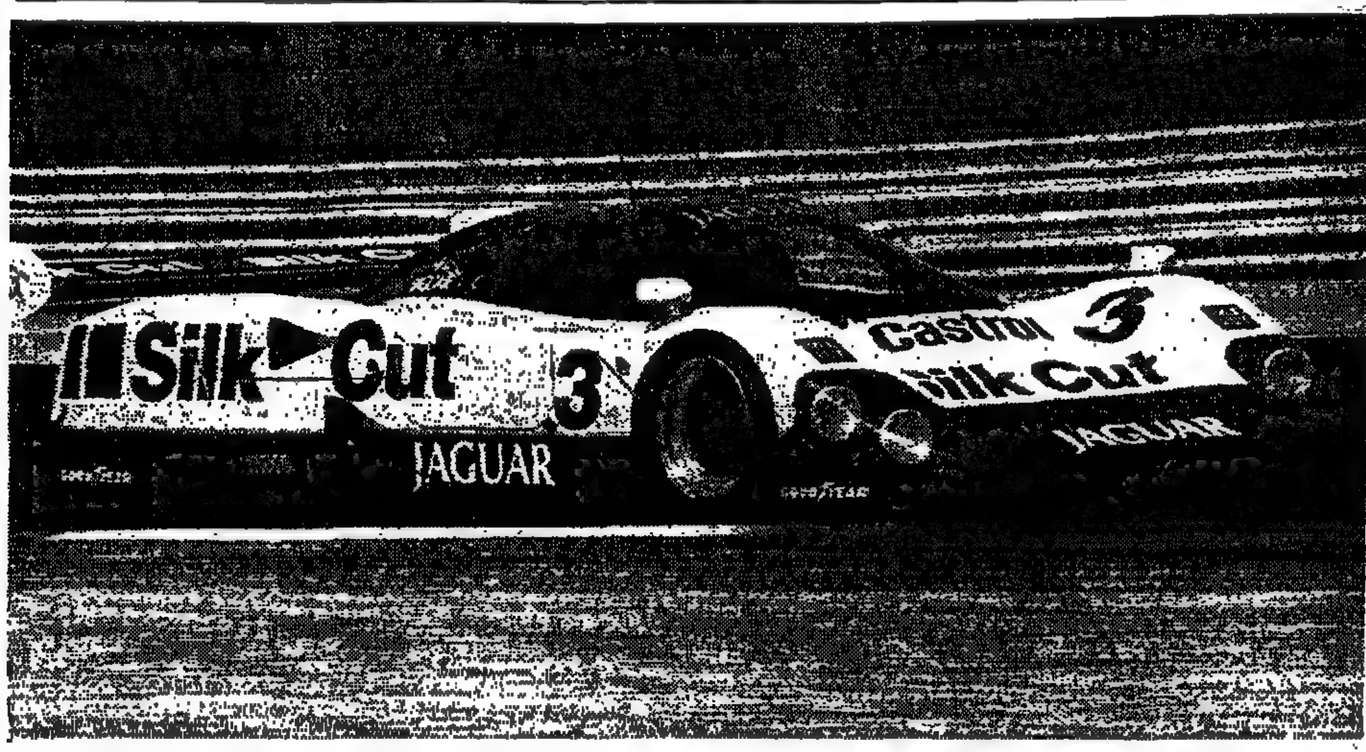
New car sales in Japan jumped by 13.5 per cent in 1988 to 3.72m and by 18.9 per cent last year to 4.4m. Demand is expected to jump again this year by 13.3 per cent to 4.99m, while more modest growth during the first half of the 1990s is forecast to raise domestic new car sales in Japan to 5.5m by 1995.

While world car production is expected to grow from 35.56m this year to 39.72m in 1995, much of the growth is expected to come from outside two of the main production areas of Japan and North America, although output is forecast to continue to expand significantly in western Europe.

Car output in North America at 7.46m in 1990 is expected to be virtually unchanged by 1995, while Japanese domestic car production is expected to grow only from 9.3m in 1990 to 9.54m in 1995.

Output in western Europe is forecast to jump from 13.74m in 1990 to 15.27m in 1995, while production in eastern Europe is also expected to grow strongly from 2.49m in 1990 to 3.28m in 1995.

The strongest growth in output is forecast in South Korea with production more than doubling from 952,000 in 1990 to 1.93m in 1995, while new car output is also expected to rise substantially in both Brazil and Mexico.



Jaguar XJ-12 took the first two places in this year's Le Mans 24-hour race

Motor sport provides a marketing tool and product test bed

The formula for success

GKN, the components and industrial services group,two months ago launched a novel initiative aimed at developing working partnerships with the UK's small but thriving motor racing industry.

Its aim is to help adapt motor racing innovations into new products for road car applications.

The initiative is being undertaken within GKN Technology's Project Extra, itself set up two years ago as a novel way of finding new engineering ideas to bring to market.

The project's technical and engineering teams examine and evaluate ideas and processes of inventors lacking the resources or expertise to develop their concepts into marketable commodities.

Mr Terry Collinson, Project Extra's manager, said that "motor racing is a continual source of new ideas, many of which may be applicable to road cars even if they are not successful in motor sport.

Through working with racing designers, we hope to promote their chances for commercial success, while sustaining our position in the very competitive automotive market."

The GKN initiative represents a modest accolade to a section of the British motor industry which, though small, size-for-size must rank as its most successful.

This year it will make a positive contribution to the UK's balance of trade of about £300m, compared with a deficit for the motor industry sector overall last year of about £6bn.

Another accolade came this year to Reynard, a Bicester, Oxfordshire racing car manufacturer, in the form of a Queen's Award for export achievement. Reynard is the world's largest racing car producer, in unit terms, with an expected output of 240 cars this year.

Reynard is not alone, March and Lola, whose cars have dominated Indianopolis-style racing – the US equivalent of grand prix – for most of the past decade, have been winners before Reynard.

But even the specialist UK industry forms only part of an activity which is both fully international and plays a more important part than many realise in the development of road vehicles.

BMW, the West German executive car maker, for example, has a subsidiary wholly devoted to capitalising on motor sport. Called, appropriately enough, BMW Motorsport its turnover has increased from DM50m in 1985 to DM300m last year, with similar sharp expansion forecast for the immediate future.

Launched nearly 20 years ago strictly to operate BMW's race and rally activities, it has grown into a production centre for commercially available, extra-fast and sporting limited edition versions of its competition cars.

The M5 sports saloon which customers can now order in a BMW showroom comes from BMW Motorsport's Garching plant at a rate of 2,000 units a year.

The subsidiary supplies the engines and other parts from which BMW's main competition-based car, the M3, is assembled alongside other 3 Series BMWs at Munich.

Headed by Mr Karl-Heinz Kalbfell, BMW Motorsport produces about 4,500 cars a year, with substantial growth envisaged.

Meanwhile, a few months ago Ford announced that it is spending £5m to guarantee supplies of its 1600cc Kent engine past the year 2000 – for no other reason that it is used in Formula Ford single seater racers – the most successful racing car formula, in terms of numbers – ever devised, with about 10,000 chassis produced since its introduction in the 1960s.

Ford concedes that, possibly more than any other manufacturer, it has benefitted in sales terms from motor sport by competing in races and rallies as a means of attracting young but affluent buyers.

These examples illustrate how misleadingly simple the term motor sport is.

It provides both marketing tool and product test bed. Over the years the proportions of each may have changed in terms of their value – but Ford's competitions manager Mr Stuart Turner, reckons that although now the balance is 70 per cent in favour of marketing, the 30 per cent related to product development is highly valuable.

The stresses and strains imposed, he insists, simply cannot be replicated on even the most sophisticated test beds.

Component, and particularly tyre makers, echo Mr Turner's view strongly.

Indeed, motor sport is the bedrock of marketing competition between the tyre companies – made even more intense now by a downturn in world tyre markets.

It is easy to see why. The car tyre market is relatively stagnant. But within it there is one notable growth sector, for high performance, low profile car radials.

These, including Pirelli, Goodyear and Michelin, which have established a strong presence in the performance sector, fight very hard to have their tyres made original equipment on big or famous car makers' vehicles.

This is not only for the original equipment business itself, where profit margins have shrunk small, but because it helps influence replacement tyre choice.

This market is much larger, and in the performance sector at least, more profitable.

Indicative of the rewards for the successful in the forecast of Mr Ludovico Grandi, head of Pirelli's world tyre operations, that performance tyres' share of the total car tyre market will reach 50 per cent, from 10-15 per cent, in the coming years.

Not least, it is likely that some of the marketing battles looming in Europe as Japanese vehicle producers seek an increasing share of the market, will be fought out on its racing circuits and rally stages.

Rightly, and as Honda has illustrated in grand prix racing and Toyota shown on the world rally championship circuit, Japan's car makers believe that beating the pants off the Europeans in motor sport is a quicker way than any other of usurping some of the prestige which attaches to names like Mercedes, BMW and Jaguar.

John Griffiths

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Can GM make Saab profitable, asks **Kevin Done**

An uphill struggle

GENERAL MOTORS faces a long uphill struggle to bring Saab Automobile, its 50 per cent owned Swedish affiliate, back into profit.

Saab Automobile, which is still 50 per cent-owned by Saab-Scania although GM has management control, has plunged further into loss this year with a deficit of SKr995m ($163m) in the first four months compared with a loss for the Saab car division in the corresponding period last year of SKr450m.

For Saab the hunt for a partner had become by the end of last year very much a question of survival. The financial performance of the car operations had deteriorated at an alarming rate from a profit (before appropriations and taxes) of SKr941m in 1986 to profits of SKr720m in 1987, SKr11m in 1988 and a loss of SKr2.13bn last year.

Mr David Herman, who was moved in by GM as president early this year, admitted recently that the company was unlikely to be back in profit before 1992. Under GM leadership Saab Automobile has embarked on a rationalisation programme designed to improve productivity and reduce costs in its plants and among its supplier companies, but further measures could prove necessary. At present the company appears to be seriously considering the postponement of an important capital investment in a new engine plant in southern Sweden.

While clearly wishing to minimise the short-term losses, GM has taken control of the troubled Saab car operations most importantly for long-term strategic reasons. (GM provides the chairman and has the casting vote).

For GM, the world's largest car maker, Saab provides a much sought-after second car marque in western Europe and the potential for developing an enhanced presence in the executive and luxury car market. It has gained extra assembly capacity at a time when most of its own European plants are working at full stretch.

GM is planning to take Saab into the luxury car market with an additional range of cars above its present 900 and 9000 segments, the reverse of the task facing Ford which plans to add a new lower range to Jaguar's luxury cars in the executive car segment. To speed up new model development and cut costs it is expected that at least part of the new generation of Saab cars to be introduced in the 1990s will share common floorpans (chassis platforms) with Opel/Vauxhall models.

GM has long been convinced that it needed an extra marque in the European car market if it was to be able to make any significant progress in penetrating the upper echelons of the lucrative executive and luxury car segments.

However technologically advanced, there is a general perception that an Opel (Vauxhall in the UK) remains an Opel. With some justification GM can claim that its top-of-the-range Opel/Vauxhall Senator, recently equipped with a new 24 valve, 6 cylinder engine, is a technical match for many of its competitors at the top of the executive car market. Its sales performance, at less than 15,000 units across Europe last year, was disappointing, however, and the Senator has failed to make much impression on Europe's well-heeled top executive car buyers.

GM is planning a far-reaching model development programme for Saab with the aim of taking the Swedish marque into the upper echelons of the European luxury car market in the 1990s.

Saab Automobile will develop, manufacture and distribute cars under the Saab name, and will also produce GM cars in Scandinavia for sale through the GM (Opel/Vauxhall) distribution network. Saab cars will continue to be sold in most countries through an independent Saab dealer organisation.

The deal has opened the way for far-reaching technical co-operation for Saab Automobile with GM's European technical development centres, chiefly in West Germany.

It has been made clear that GM will also produce for Saab a version of its new range of V6 engines, that are to be built at its planned £160m engine plant in the UK.

Saab Automobile will have full access to GM's worldwide technology and automotive component resources and supplier network.

The first visible evidence of the Saab/GM alliance will be the production of the new Opel/Vauxhall Calibra coupe at Saab's Finnish plant at Uusikaupunki. The Saab 900 and Saab 9000 will continue to be made in the Swedish plants at Malmö and Trollhättan. The move is an attempt to utilise more fully Saab's existing capacity, while at the same time relieving the pressure on GM's other European plants.

Saab plant at Malmö commissioned in 1989 which added to the group's overcapacity prior to GM's takeover of control

GM Europe is aiming to begin production of the Calibra at Uusikaupunki in March next year. Output in 1991 will total around 20,000 units with investment amounting to some FMk200m ($50m).

The start of production of GM cars in Finland, will allow the transfer of some Saab car assembly from the Uusikaupunki plant to Saab's Malmö plant in southern Sweden, where present output of about 65 Saab 900 cars a day will be more than doubled to 140 a day by April 1991.

The company had embarked on an extensive rationalisation effort including the sale of components operations, a reduction in output and cuts in the workforce by 1,500-2,000 during 1989/90.

In further restructuring moves Saab Automobile is planning to withdraw from several component manufacturing operations, which will enable it to reduce its 16,500 workforce by around 1,355. According to Mr Herman the various moves should produce savings of about SKr200m a year.

Saab is withdrawing from the making of wiring harnesses in Kramfors, Sweden and Halden, Norway, from seat development and production in Kristinehamn and Trollhättan, Sweden and from making car axles in Kristinehamn.

It will re-source the components from outside suppliers, and is expected to begin buying wiring harnesses partly from Reinshagen, a GM subsidiary in West Germany. A small part of the Saab components operations could be taken over by other groups.

Saab Automobile is restructuring its sales and marketing operations with the establishment of a European regional sales office inside the European Community.

The sales and marketing links are steadily becoming closer between Saab and GM. Saab Automobile will sell a range of GM's US-produced vehicles through its Swedish dealer network, while GM is seeking to sell Saab cars as an exclusive European marque in Brazil. GM has taken over the Saab car sales and marketing operation in Canada, and the Swedish car producer is hopeful that the link with GM can help it to penetrate more easily car markets in eastern Europe.

For Saab-Scania the sale of a 50 per cent stake and control in its previously fiercely independent car operations was the belated signal that the company simply did not have the scale to survive in an increasingly global industry.

Mr Georg Karnsund, chief executive of Saab-Scania, maintains that "soaring costs for research and development and ever-increasing international competition make it difficult for small volume car makers to survive on their own in a longer perspective."

Saab-Scania had previously tried to accomplish the daunting task of maintaining an independent presence not only in the car industry, but also in trucks and aircraft making, but it was an unequal battle.

In the face of mounting losses it sold the 50 per cent stake in its troubled Saab car division to General Motors for $600m and most importantly ceded management control. GM and Saab-Scania have each injected $100m in new equity capital into the company.

Saab's sales had fallen in the vital US market (31,306 cars of total sales of 109,482 in 1989) stocks had become excessive, and output was falling at a time when the company was actually bringing new capacity on line and its model range had appeared increasingly dated with little sign of a replacement for its aged 900 before well into the 1990s.

Saab's output is spread inefficiently across three assembly plants, two in Sweden and one in Finland, for a total output last year of less than 110,000 cars compared with a capacity for producing 180,000 cars a year. With all its car production capacity located outside the EC and suffering the production inefficiencies of probably the highest absenteeism and sickness rates in Europe, Saab was hardly the ideal takeover candidate for another car maker in Europe. Its value lay in its name, however.

While staunching the flow of red ink is the short-term task, the long-term test for GM will be whether it can turn Saab into a challenger in the European and world executive and luxury car markets without diluting its specialist image.

Will Saturn turn the Japanese import tide? **Richard Feast** reports

A mission to convert buyers

SATURN, the new General Motors car that goes on sale in selected areas of the US in November, will not live up to the grand vision outlined for it six years ago by Mr Roger B Smith, then chairman of GM.

However, it represents a large undertaking – the biggest industrial complex built by the world's largest manufacturer, and the first fully integrated car-making facility to be constructed in the US since Ford's River Rouge facility in the early 1930s.

Saturn is GM's $3.5bn answer to the increasing number of US customers buying Japanese cars. Imports were a concern when GM executives started meeting in secret in the early 1980s to discuss the problem. They have become an even bigger worry since then.

Japanese cars, which are being assembled in the US heartland, attract well over one in four new car buyers in the US. In trendy California, it is one in two.

The big loser is GM. With 36 per cent, it is still the comfortable market leader in the US, but it has lost more than 10 per cent in share in the past decade.

Moreover, car sales in the US have slowed. The market is driven by incentives to such a degree that GM – and Ford and Chrysler – are believed to be losing money on domestic car-making operations. GM needs a sales success to stop the slide.

Saturn is aimed straight at those import buyers. "Saturn's fundamental mission is to appeal to import and non-GM domestic buyers and deliver 80 per cent plus business to GM," says Mr Donald W Hudler, Saturn's vice president of sales, service and marketing.

However, 42 per cent of new car buyers would not even consider a GM product, says J D Power, market researchers.

This anti-GM bias is a serious problem for the company, whose share fell because of indifferent quality, badge engineering compromises, and some fuzzy brand marketing.

GM has seven vehicle brand names in America: Buick, Cadillac, Chevrolet, Geo (imports), GMC (trucks), Oldsmobile and Pontiac. Too often they were competing for the same customers and losing to brands such as Ford, Toyota and Honda with clear images.

GM needs another brand like it needs a hole in the head, says Mr Doug Fraser, former United Auto Workers union president.

The erosion of GM business occurred against a background of well-publicised business woes, including the EDS/Perot row, over-capacity, over-manning, questionable executive bonuses, a deteriorating financial position, and the commercial success of the film Roger & Me, which portrays the closing down of a series of car plants in the town of Flint, Michigan, the birthplace of GM.

It is one of the reasons why the new car's advertising will carry no references to the organisation which created it. Saturns are products of the Saturn Corporation, not GM.

The four-door saloon and two-door coupe that will emerge in late October or early November are reminiscent of the imports which became their inspiration. They are similar in size and performance to the Honda Civic and Toyota Corolla. Saturn will be pitched to appeal to those same Honda and Toyota owners with prices expected to be in the $10,000 to $12,000 region.

Saturn has borrowed other aspects of its business from the Japanese. The people employed at the Spring Hill, Tennessee, factory are partners rather than workers. They eat in the same canteen, off the same paper plates, as Mr Richard G "Skip" LeFauve, the president.

Much of the production philosophy was learned from Toyota, GM's partner at a car plant in Fremont, California. Like Fremont, Spring Hill does not bristle with robots and automated final assembly. Instead, greater attention to labour-management relations will be important to Saturn's quality and efficiency. The UAW has been a "partner" from the beginning.

Even in distribution, Saturn is following the Japanese practice of limiting dealer numbers. This is to ensure each dealer sells a large number of Saturns. This is to ensure an adequate return on the $2m to $4m investment required for a stand alone Saturn dealership.

Initially, there will be just over 100 dealers for the anticipated start-up production rate of 120,000 a year. A second shift to be added in the middle of next year will lift annualised production to 240,000.

Saturn says it plans to produce over 500,000 a year by 1995, by which time its number of dealers will be up to 300. It will differ from Japanese practice in exports. Apart from some sales to Canada, Saturn is an American car for the US.

There are no other known export plans for the vehicle, even though the company's mission – spelled out on a card handed to visitors – is to produce cars that are "world leaders in quality, cost and customer satisfaction."

The first customers to find out if the goals have been met will be in southern California – enemy territory for GM – and Tennessee. The east coast will follow in February. Selling in the heartland of the US, where the domestic makers remain strongest, will come later. Ironically, middle America is where the Japanese importers, bolstered by additional cars from their transplants, will be making their biggest push.

To some extent, Saturn is GM's transplant – a factory well away from the decision-making and traditions of the headquarters building. Like a transplant, it is adding to North American over-capacity problem as Detroit's Big Three dither about closing older and inefficient plants.

Where it differs is in depth of production. Saturn is much more than a mere assembly line for which many components come out of boxes that are labelled made in Japan.

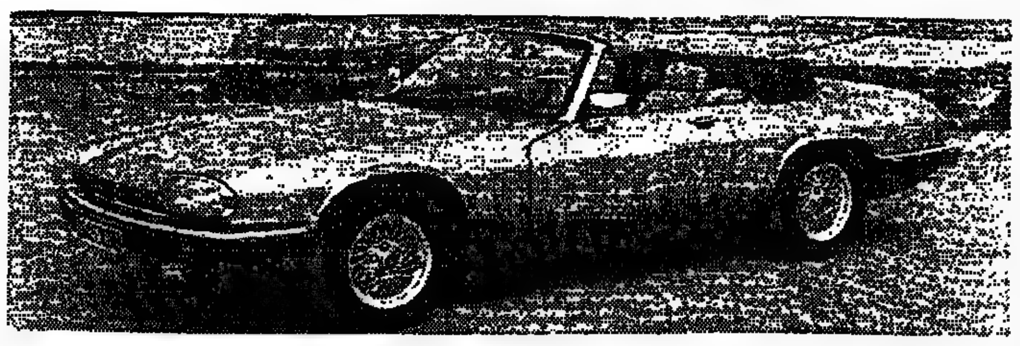
It contains 87 acres of manufacturing space, including foundries, to produce engines and transmissions, mechanical components, steel stampings, plastic interior trim and fully assembled cars.

While GM has scaled back on some of Saturn's promises, it remains an ambitious project. The investment – even if it is not the $5b forecast – guarantees a great deal of hype.

Saturn is not GM's first car to be dubbed a make-or-break model. It happened before with the Vega, Chevette, X-cars and Cavalier. Even so, GM's Mr Smith was unequivocal in 1985 when he confirmed production of the then much-discussed and futuristic "no year" car: "We believe Saturn is the key to GM's long term competitiveness, survival and success as a domestic [US] producer."

Mr Smith, who drove the first production car off the line this summer, will be well into retirement by the time Saturn has had a chance to prove the validity of that claim.

WORLD CAR INDUSTRY 10



Jaguar has been mapping out new routes

Some painful surgery

THIS month the board of Jaguar, the UK luxury car maker, is putting the final touches to its 10-year business plan. Next month the plan will go before the Ford board for approval and virtually simultaneously crucial negotiations begin with the Jaguar workforce on a new wage deal.

For more than nine months the new Jaguar management team led by Mr Bill Hayden and Mr John Grant, the two top officials drafted in by Ford at the beginning of the year following its £1.38bn takeover last November, have been mapping out a new route for the company. The transfer to Ford ownership has not always been easy.

Mr Hayden, who headed the Ford transition team and then took over from Sir John Egan as chief executive at the end of March and as chairman at the end of June, admits that it has been a "nerve-wracking period for Jaguar people."

"They have faced much criticism from me, aimed at the technical fraternity, which was the most undisciplined part of the organisation."

The process "culminated in an explosion with the Jaguar board," while it was still under the chairmanship of Sir John, admits Mr Hayden. "John was more defensive about where Jaguar was and what had been achieved. Others were more pragmatic and more attuned to the company's weaknesses as well as its strengths. I did a report for the US board about where we stood that upset John."

Mr Hayden, 61, one of the most highly respected manufacturing executives in the European motor industry, and one of only two non-American corporate vice presidents at Ford, has been most scathing about Jaguar's "relative lack of achievement in new products" and the "inefficiencies" of its manufacturing operations.

The depth of the deterioration of Jaguar's financial performance was revealed during the summer, when it reported a £49.3m pre-tax loss for last year compared with a £47.5m profit in 1988 on a turnover which increased by 6 per cent to £1.139bn. Production fell last year to 48,139 from 51,939 in 1988, while sales to dealers and distributors declined to 47,668 from 50,603 a year earlier.

Mr Hayden, previously vice president of Ford of Europe's manufacturing group, says that Jaguar's product programme "was in some disarray" and could not be achieved. "Some of the surgery was painful to accept."

Most significantly Ford's arrival at Jaguar has meant that the luxury car maker has had to drop its development of the so-called F-Type sports car, which had been planned as a successor to the earlier E-Type. The development programme was not meeting its targets for cost, fuel economy and performance.

"When we came in it was a 1994 model year car, but that was plainly impossible. It was grossly overweight from its initial target. It had plainly not been engineered to a degree that it could be released to manufacturing," says Mr Hayden.

The sports car programme "was out of control", he says. "They had been working on it for eight years and it was no nearer completion."

Instead the product plan that will be presented to the Ford board next month will concentrate on renewing the existing pillars of the Jaguar range, the XJ6 saloon and the XJS grand tourer and developing the engine programme.

"Then we will look at expanding the product range, while hanging on like grim death to the Jaguar image," says Mr Hayden.

Such an approach may sound cautious, but it will lay the groundwork for an expansion which could quadruple Jaguar output by the end of the decade, and could involve a further investment of some £1bn.

Jaguar is expected to concentrate its resources on developing two basic floorpans (chassis platforms) for its future range of the mid-to-late 1990s, one for the replacement of the existing XJ6 luxury saloon launched in 1986, and one for the planned smaller sporty saloon, which will seek to revive the traditions of the Jaguar Mark II saloon of the 1960s.

The company could eventually have a four model line-up, adding the smaller "sporty saloon" and a sports car to the existing XJ6 and XJS ranges. It is planned to raise output to close to 200,000 cars a year in the next 10 to 15 years from the production of 48,138 achieved last year.

The luxury saloon replacement for the XJ6, a programme code-named XJ90, should be ready for launch in 1995/96, with a coupe derivative to replace the XJS probably following off the same platform two years later.

The new smaller sporty saloon range which will take Jaguar into head-on competition with cars such as the BMW 5 Series and into the modern world of much more automated car assembly, would follow in the later 1990s.

Hayden: concentrating on the pillars of strength such as the XJS (above left)

It appears unlikely that Jaguar will choose to build a new greenfield assembly plant, opting instead to develop its existing three sites.

Mr Hayden has already warned that the efficiency and productivity of the Jaguar workforce has to be substantially improved with the introduction of more automated production methods in order to achieve more consistent quality levels.

It will be necessary to remove the present demarcations at Jaguar plants of the sort which disappeared at Ford plants 15 years ago. The transition team at Jaguar has established that savings of "well in excess of £100m" can be achieved through the Ford takeover and the integration of Jaguar into the Ford components supply system.

The annual report of Ford Motor, Ford's UK subsidiary, shows the heavy price the US group paid for the Jaguar name, when it acquired the company for £1.38bn late last year. Of the takeover price, £249m was for the net assets and £1.13bn was for the goodwill. Not surprisingly Ford is treading gingerly, anxious not to rub any of the gilt off the nameplate it has bought so dearly.

While it has installed three senior executives at the company, it appears determined to run the company at arm's length and not jeopardise its independence and its image. Ford has repeatedly stressed that it intends to manage Jaguar as an autonomous business. In its offer document to Jaguar shareholders it said:

- Jaguar will remain a separate legal entity with a self-sustaining capital structure and its own board of directors
- the board will "operate independently within agreed control parameters", will comprise senior Jaguar management and Ford nominated directors, and will include "independent non-executive directors"
- organisationally, Jaguar will report to the chairman of Ford of Europe.
- the board will have "sole discretion in the application of the Jaguar marque."

Mr Lindsey Halstead, Ford of Europe chairman and a member of the Jaguar board, says that these arrangements are "essential to preserve the identity of Jaguar."

Ford says the development of Jaguar will take place in Coventry and in the West Midlands. The Whitley, Coventry research and development centre is to be expanded, Jaguar's corporate headquarters will remain in Coventry, and Jaguar's exclusive distribution network is to continue.

Ford has been prepared to pay dearly to buy its way into the most exclusive upper echelons of the world luxury car market, and a pay-back is unlikely to come much before the end of the decade.

Jaguar may currently produce less than 50,000 cars a year with some antiquated production facilities, it may be operating at a loss and it may only have introduced one all-new model range in 14 years, but it has a name, it has luxury, prestige and exclusivity and for Ford it represented perhaps the last chance to enter the highest segment of the world luxury car market.

Kevin Done

THE ENVIRONMENT

A clamp on emissions

THE YEAR 1990 may come to be seen as something of a watershed for the car and the way it is perceived by large sections of society.

It is the year in which acceptance has become widespread that the environmental problems it causes, particularly those related to exhaust pollution, are not going to go away.

If the worst happens in the Gulf, and war brings serious dislocation of oil supplies, the rise in pump fuel prices of which the West has had a foretaste will make the drive for more fuel-efficient, and more environment-friendly, forms of propulsion an issue to be felt in pockets, not just consciences.

At the legislative level, the European Community has at last agreed strict new standards to reduce exhaust emissions.

In the absence of any commercially viable alternative technology, they mean that every car produced or sold in the region from the start of 1993 onwards will be fitted with catalytic converters.

In their most sophisticated, electronically-controlled form, such catalysts can reduce by about 96 per cent the carbon monoxide, hydrocarbons and nitrogen oxides which cause obvious environmental damage such as photochemical smog and acid rain. (They cannot, however, do anything about carbon dioxide, the main global-warming gas, which is an ineradicable product of combustion).

Europe will thus move closer to the standards of the US, which has required cars to have catalytic converters since the early 1970s.

While US legislators have shrunk from one measure which could really focus US motorists' attention on fuel-efficiency measures, a petrol tax to stop the profligacy encouraged by pump prices of about $1 a gallon, they are moving the goalposts on other fronts.

Thus this year may mark the approval of a new, sweeping Clean Air Act, which has been grinding its way through both Houses of Congress for more than a year.

The detail of its final form may yet change, but its main thrusts will not.

Cars and their manufacturers are only a partial target in legislation which will bring harsh clampdowns on the emissions and other wastes produced by a wide swathe of industries. Even so, the consequences for the car industry are enormous.

Ford, the US' second largest vehicle maker, recently produced a confidential report concluding that environmental concerns will be among the most serious facing the industry until well into the next decade.

It concludes that not only will they affect the size and shape of cars and how they are made, but that urban congestion in the developed world will become so bad that their use will have to be curbed in favour of public transport.

"We will see tighter fuel mileage requirements, alternative fuel incentives, fuel conservation taxes and other restrictions," the report concludes. How well-advised some of the proposed legislation is remains open to doubt.

The industry has been arguing, for example, that the proposals for further reducing exhaust emissions on petrol-powered cars go beyond the point of what is sensible or cost-effective. They claim, for example, that it is likely to add $600 to the cost of a new car to eradicate the four per cent of exhaust-emitted pollutants – more than it cost for the catalytic converter systems which dealt with the first 96 per cent.

Far more effective and cheaper measures, they argue, would include much more rigorous inspection of the older cars which are responsible for around 85 per cent of the pollution – a not wholly altruistic argument since it would, of course, encourage new car sales and production.

Europe's car industry, governments and environmental groups are following the Clean Air Act's progress with close interest, and not without good reason.

California, in particular smog-shrouded Los Angeles, was the crucible out of which the catalyst car first emerged to spread across North America. And in this area at least, where North America leads the rest of the world is inclined to follow.

That certainly applies to Europe. After a protracted and complex squabble over the upcoming emissions standards, the European industry fully, if in places reluctantly, accepts that tough action to protect the environment is necessary. As in North America, it will not be confined to cutting exhaust emissions.

European Commission experts are looking at a whole panoply of measures, including lower speed limits, radical traffic management schemes and support for the development of alternative fuels, such as methanol or even hydrogen, and propulsion systems, such as batteries and electric motors.

So far, no potential rivals to the petrol or diesel engine appear to be on the point of viability – although plenty of new ideas are being developed. One, at the prototype stage in the UK, and developed by Dr Dan Merritt and colleagues at Coventry Polytechnic, is for an engine where ignition is by a catalyst lining the combustion chamber itself and claimed to do away with the need for expensive, external catalyst systems. It, like most other such innovations, is a long way from commercial production.

Other significant alternatives may not be. Outgoing General Motors chairman Mr Roger B Smith, for example, has declared that GM will put into production the Impact, an electric car capable of exceeding 100 miles an hour and with a claimed range of 100 miles-plus.

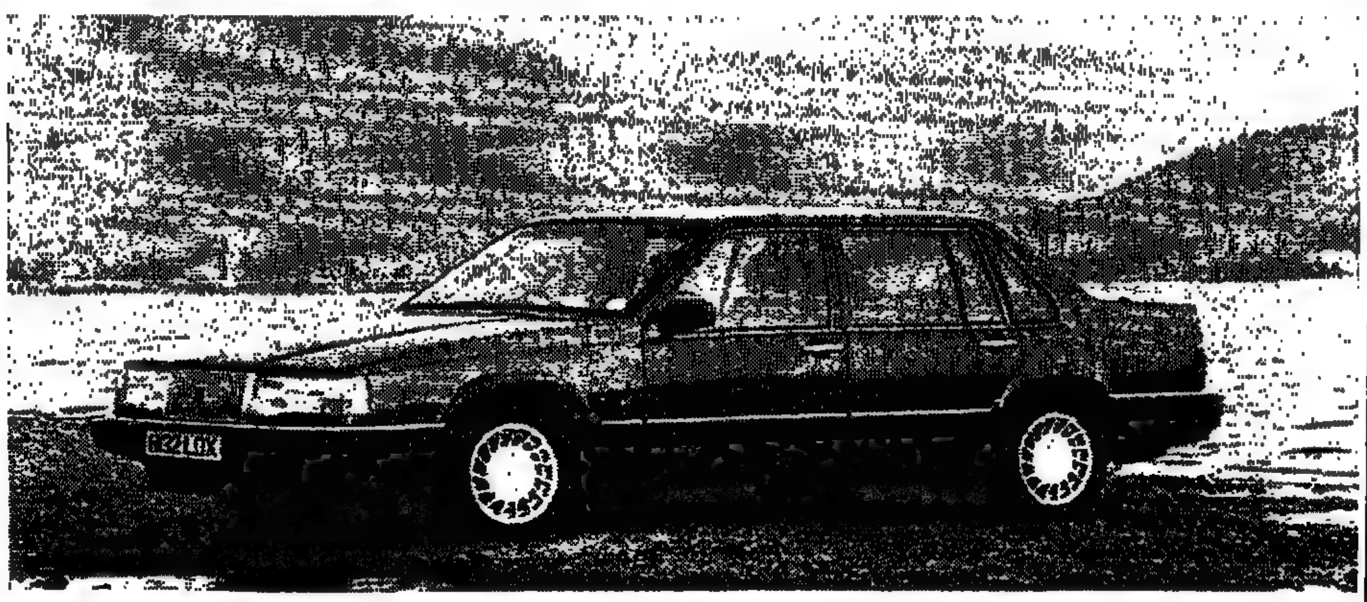
Given the long, sterile history of previous attempts to launch a viable electrical car, sceptics say they will believe it when they see it.

But it is even possible that 1990 may come to be seen as something of a watershed for the electric car. Under what is known as the "Los Angeles Initiative," the local authorities have drawn up plans for a trial fleet of 10,000 electric cars to be operative in the area by the mid-1990s.

Three manufacturers are bringing these trial vehicles into production.

The exercise should demonstrate whether clean air standards being set for the region in the early 21st century, and which would require a large percentage of vehicles to be electrically powered, is actually feasible – or pie in the sky.

John Griffiths



Gyllenhammar (left) still watches over a Volvo group which is deteriorating financially but has hopes for its alliance with Renault and its new 960 series (above)

With a trend towards world cars and global markets Volvo has forged an alliance

Estate car marries a people carrier

AS Volvo's financial performance deteriorates the Swedish car and truck maker is vesting increasing hopes in its far-reaching alliance with Renault, the French state-owned automotive group.

The preliminary agreement announced earlier this year is due to be signed this autumn, a few months later than originally planned. Both sides insist that no obstacles have surfaced although Volvo's short-term profitability has deteriorated in the intervening months.

Volvo's group profits (before allocations and taxes) plunged by 54 per cent in the first six months this year, thanks in part to the drop in the profitability of its car operations. Disclosing the drop in profits last month, Mr Christer Zetterberg, who was appointed president of the Volvo group earlier this year, admitted that "in a period of sharpened competition, it is clear that the reasons for an alliance with Renault have only become stronger."

Under the terms of the alliance the two groups will exchange large minority stakes in their respective car and truck and bus businesses.

The two groups have stopped well short of a full merger, but such a development is not ruled out, if the initial alliance can be made to work. Volvo and Renault have agreed to hold the minority stakes for at least 10 years. According to Mr Raymond Levy, Renault chairman, the deal with Volvo has been constructed so as to ensure that neither party "can be tempted to go astray, marry somebody else or even divorce."

Renault is to take a 25 per cent stake in Volvo's car operations, a 45 per cent stake in its truck and bus business and will purchase a stake of up to 10 per cent in the Volvo parent company.

At the same time Volvo will acquire a 45 per cent stake in Renault Véhicules Industriels, Renault's truck and bus subsidiary, and an initial 20 per cent stake in the Renault parent company which includes the French group's car operations. It will have an option to increase this to 25 per cent at any time in the next three years.

Volvo will pay a net SKr12.5bn ($2.17bn) for its stakes in the Renault companies, the most important partnership it has ever undertaken. As a consequence of the deal the French Government has agreed to remove Renault's privileged position as a "Regie" or state agency, turning it into a joint stock company, albeit still 75 per cent state-owned.

Benefits from the alliance are unlikely to be reaped for several years, particularly from the car operations. Both companies' model programmes are largely in place for much of the first half of the 1990s. Mr Roger Holtback, president of Volvo's car division for the last six years, claimed recently, that while Volvo faced an uphill climb, the Renault deal was "an insurance policy for the second half of the 1990s."

Mr Holtback, who was rumoured to have been a less than full-blooded supporter of the alliance, will not be making the climb, however. Earlier this month he announced his surprise departure from Volvo in order to take up a position in the executive management of Skandinaviska Ensilda Banken, Sweden's leading bank.

Mr Holtback, earlier seen as a potential successor to Mr Pehr Gyllenhammar, Volvo group chairman and chief executive, until such a move was blocked by the arrival of Mr Zetterberg, was to have been one of two Volvo members of the planned Car Joint Technical Co-ordination Committee between the French and Swedish car makers. His place will probably now be taken by his successor, Mr Lennart Jeansson, Volvo group finance director and one of the main architects of the alliance.

Unlike in the truck industry, where Volvo and Renault overlap in several sectors, the two companies' car operations differ substantially in both size and market position. Volvo produced 414,000 cars last year compared with Renault's output of 1,966,700 cars and vans. Renault is one of the big six volume car makers in Europe, albeit the smallest with a 10.4 per cent share of the western European car market last year, and has a car range spanning the market from small cars to executive models.

Volvo is essentially a specialist producer of executive cars, with a special presence in the market for estate cars and with an important foothold in the US, which is its biggest single market and where it is one of the leading European importers. It holds less than 2 per cent of the western European new car market.

The turnover of Volvo's car operations last year at SKr42.94bn ($7.1bn) was less than a third of Renault's car business at FFr137bn ($24.4bn), while Volvo has a workforce in cars of 34,750, compared with Renault's 129,700.

The Renault and Volvo car product programmes overlap only slightly in the upper-medium and lower end of the executive segments of the European market, but it is here that the two companies estimate that the benefits of co-ordination can be realised most rapidly.

According to Volvo the main opportunities for co-operation in the car sector lie in:

- the co-ordination of research and development programmes in particular for components and systems
- co-ordination of capital expenditure planning in order to gain economies of scale and restrict duplication
- co-ordination of the procurement of components and systems.

Volvo has calculated that such co-ordination could reduce Volvo Car's total costs for product development, production and procurement by about 5 per cent over a period of 5-8 years, but it accepts that this marginal improvement will be offset in part by the anticipated intensified competition in the 1990s.

Mr Holtback envisages joint development of new vehicles, at least for niche segments, combining for example Renault's strength in people carriers with its Espace and Volvo's presence in estate cars.

There will be little scope for cost savings in distribution, as the two companies have pledged to keep their dealer networks separate in order to preserve the integrity of the Volvo and Renault brand names.

Importantly, Volvo uses modified Renault engines and gearboxes in its 400 series, which is built in the Netherlands.

As a further step in the realignment of the two car makers Volvo is moving to take over the 70 per cent stake it does not own in Volvo Car BV, its Dutch affiliate, a step it hopes to implement by the end of the year.

Earlier this month Volvo Car BV told its workforce that a "concentration of all Volvo car activities under one explicit responsibility and central control is unavoidable." It warned that its costs were too high and that cost-reducing measures were "absolutely essential" in the face of mounting competition in the western European car market.

As a modest first step in the alliance Renault and Volvo have formed a 50/50 joint venture company to carry out advanced research with the establishment of Advanced Research Partners, which will be domiciled in France.

Kevin Done

PROFILE: Christer Zetterberg

View from the wings

THE 48-year-old Mr Christer Zetterberg, president of Volvo since last spring, is in an unenviable position. He remains the anointed successor waiting in the wings to take over as chief executive of the Swedish automotive and aerospace group from the charismatic Mr Pehr Gyllenhammar. But he is a crown prince whose coronation date remains unknown.

For the moment, Mr Zetterberg as chief operating officer – in effect the number two post in Volvo – has the thankless task of being the messenger boy carrying the bad news as he explains to the outside world why Volvo's profits have been falling sharply and job cuts are needed.

Mr Gyllenhammar continues to provide the focus and the vision for Volvo's European strategy. It looks like an uneasy alliance of unequals for nobody doubts that Mr Gyllenhammar's views and personality will continue to shape Volvo's destiny until the day he chooses to step down and make way for Mr Zetterberg.

Nobody can doubt where power still lies in the corporation. In the world of Volvo there remains room for only one dominant leader.

When Mr Gunnar Johansson was Volvo president the structure of decision-making was clear enough. Indeed, he and Mr Gyllenhammar appeared to be ideal complements – the man of vision coupled with a self-effacing subordinate with his practical feet on the ground. But then Mr Johansson was never a threat nor a potential heir to Mr Gyllenhammar.

Now the relationship between Volvo's chief executive and president is more complex and uncertain.

It was only last November that Mr Gyllenhammar sprang a surprise at Stockholm's cafe opera when he presented Mr Zetterberg to the incredulous Swedish media as his chosen heir apparent. At 54 the Volvo chief executive hardly sounded or looked like a man yearning for early retirement. Within a matter of weeks, it was clear that Mr Zetterberg's arrival in Volvo did not mean Mr Gyllenhammar intended to turn himself into a lameduck chief executive.

He made a deal to combine Volvo's food and drug operations in Pharmacia and Provendor with Sweden's state holding company Procordia in a SKr23.8bn agreement and in late February this year forged a new intricate alliance between Volvo and Renault.

Nor has Mr Gyllenhammar ceased to be a highly influential and vocal figure in Sweden's public life.

Recently he wrote forcefully in the leading newspaper Dagens Nyheter about the need for the country to abandon its traditional neutrality policy and come to terms with the European Community as an eventual full member. Such an attack on the hallowed neutrality question brought criticism from the politicians but it remains a mark of Mr Gyllenhammar's continuing importance that his words were treated seriously and with respect.

The slogan – Whatever Volvo does today, Sweden does tomorrow – may always have been an exaggeration but there is no doubt that Mr Gyllenhammar has done a great deal during his long 19 year reign to make it almost a truism.

His burst of creative energy between last November and this March made the premature announcement of Mr Zetterberg as his successor seem all the more puzzling.

But then it has become increasingly clear that Mr Gyllenhammar is not going to disappear from Volvo after Mr Zetterberg becomes chief executive.

The post of executive chairman is to be created, and it will be filled by Mr Gyllenhammar, who will remain as the joint head of the steering committee between Volvo and Renault and head of the board at Procordia.

Mr Zetterberg has been the model of restraint and discretion and he does not appear, at least publicly, to feel any annoyance at what some observers regard as his ambiguous position in the shadows. Cool and self-contained, he insists he has an agreement with Mr Gyllenhammar about when he takes over so there is no difference of view between the two men on the timing of his move to chief executive.

But a genuine dilemma exists in the relationship. Mr Zetterberg is a subordinate but he cannot afford to be merely Mr Gyllenhammar's surrogate. At the same time he must display loyalty and ability as well as indicate he is his own man. Finding the right balance of independence and dependence will require a high degree of finesse and discretion.

No doubt, Mr Zetterberg is taking the opportunity of using his apprenticeship period to come to grips with the challenge of Volvo's diverse and sprawling business areas.

Zetterberg: crown prince

After all, he came to the company last April with no previous working knowledge of the auto industry after spending his formative years in business in Sweden's pulp and paper industry. He started work with the SCA company in Sundsvall and ended up as president of Holmens Bruk for five years between 1984 and 1988.

There followed only an 18 month stint as chief executive at Sweden's state owned PK Banken, an experience that Mr Zetterberg welcomed but led to his wish for a return to the more risk taking world of manufacturing.

Since his arrival at Volvo Mr Zetterberg has gradually been taking on more responsibility. His initial task has been to tackle the company's low productivity and high cost problem at its Swedish plants, looking at ways of cutting Volvo's high sickness absenteeism and labour turnover. More recently he has been examining how to improve Volvo's low share price.

Changes at the top of any large organisation are difficult to accomplish smoothly. What has raised sceptical eyebrows in the case of Mr Zetterberg is the belief that Mr Gyllenhammar will step down within the immediate future and allow his able lieutenant to take Volvo in the direction he wants it to go.

The truth is that Mr Gyllenhammar has become such a guru figure in Sweden that the prospect of his imminent departure from the top of Scandinavia's biggest company is still met by signs of disbelief.

Robert Taylor, Stockholm

Japan is challenging the luxury car sector. **Peter Nunn** (bottom) charts that move and (top) the R&D programme that fuels it

Reliability heads sales drive

JAPAN'S car makers are thrusting ahead in a wide array of research and development on cars of tomorrow.

Such R&D focuses on four primary areas: components, such as a greater use of aluminium to reduce weight, electronic systems centering on sensors and microprocessor and a variety of high-tech features. The high-tech options include navigation systems relying on information relayed from satellites, and liquid-crystal display (LCD) televisions and facsimile machines.

Few Japanese motorists hesitate to shell out extra money for such features as navigation systems, combined four-wheel steering and four-wheel drive, or electronically controlled suspensions.

Car makers are among Japan's largest spenders on R&D. Toyota, Nissan, Honda and Mitsubishi rank high in such spending. All of the leading companies use supercomputers for design, engine and crash simulations.

However, the orientation of their R&D system is changing. Until recently, most Japanese companies relied heavily on development of concept cars. Even Isuzu and financially-troubled Fuji Heavy Industries (Subaru) developed such fancy prototypes.

The practice of developing concept cars appears to be declining in significance. But the prototype vehicles will still be designed for display purposes, industry analysts in Tokyo say. However, Honda has no faith in concept cars. Instead, it provides opportunities for young engineers to hone their high-tech skills on development of engines for formula-1 racing cars, according to a Honda spokesman.

Reliability is a principal selling point for Japanese cars. To make their products more reliable, Japanese companies are investigating use of artificial intelligence (AI) computer software to run on-board monitoring-diagnostic systems. Such AI programs are typically called "expert systems" in computer lingo.

Applied utilisation of AI systems is still a few years down the road. In this area, Toyota can draw on the resources of its affiliate, Nippondenso, Japan's largest supplier of car electronics systems. Nissan, which has experimented with "fuzzy logic" control software in a concept car, often works together with Hitachi, Japan's largest integrated electronics company.

Even the Japanese Government is involved in the car of tomorrow. At the Ministry of International Trade and Industry's Mechanical Engineering Laboratory, in Tsukuba, Ibaraki Prefecture, a so-called "intelligent car" is being developed. This research centres on use of on-board cameras and computers for automatic steering based on AI pattern-recognition technologies.

One of the reasons that R&D in Japan is exerting a great impact within the automotive work is that the Japanese have quick development schedules. Japan's car makers typically bring out full model changes every three or four years, and they are introducing a variety of new models. This means they are quick to tack on new features to differentiate their cars in the highly competitive domestic and US markets. By contrast, American and European companies offer full model changes every seven or eight years.

Mitsubishi has introduced a sleek sports car called the 3000 GT, the top version of which comes with four-wheel steering, four-wheel drive, an electronically controlled suspension and a twin-turbocharged V6 engine capable of putting out nearly 300 horsepower. Many aspects of the development programme for the 3000 GT were based on Mitsubishi's High-Speed Resarch II concept car. The so-called active aero system, is one such example. Above 50mph the 3000 GT's rear spoiler rises while the front air dam is lowered to enhance downward force. Better stability at high velocities is the result.

With the exception of the active aero system, nothing on the Mitsubishi 3000 GT is new. However, offering an array of high-performance features together with a powerful engine, while at the same time keeping the base price under $32,000, is an example of formidable "systems integration" expertise.

At Isuzu, engineers are refining a 4.2 litre V8 engine that is slated to power a sports car. That sports car is rumoured to be a joint project with Lotus.

A few Japan-only cars that were introduced in recent months possess highly innovative features. For example, Toyota's small Sera model features glass-topped gull-wing doors, while Mazda's Cosmo is powered by the world's first three-rotor Wankel engine with twin turbochargers. The Cosmo is offered with an optional car navigation system.

Not all Japanese automotive R&D revolves around flashy features. Some of it is quite mundane. Nissan, Honda and other makers are focusing on greater use of aluminium to reduce weight. For example, Nissan says that aluminium panels on the Skyline (a Japan-only vehicle) helped cut weight by 30 pounds.

The most extensive application of aluminium is on Honda's NSX, a Ferrari-like roadster priced at about $60,000. Even its all-new suspension is almost entirely aluminium alloys. Its body and doors are also aluminium alloy, while engine connecting rods are made of titanium. Nissan's 300ZX has an aluminium hood, also to reduce weight and enhance fuel economy.

At Nissan's technical centre in Kanagawa Prefecture, a pair of Cray supercomputers are employed to enhance body strength and rigidity, and reduce vibration, says Mr Toru Saito of Nissan's Tokyo headquarters. The company plans to make improvements in drag coefficients through crunching numbers on a more powerful Cray supercomputer to replace its top model, Mr Saito adds.

Improving the user-friendly features of cars is one of the priorities of Nissan's concept car research. For example, its NEO-X car, which was unveiled at the 1989 Tokyo Motor Show, features an infra red night vision device and a holographic head-up display. The night vision device, using a small CRT monitor, comes in handy in foggy weather, while the head-up display on the windshield shows the vehicle's speed and gives warning messages. Nissan goes so far as to say it is working on synergetic "intelligent vehicle control" technologiers, to make it easier for drivers to be in command of a wide range of features.

One of the ways that the NEO-X has its weight trimmed is use of a composite-type drive shaft made of carbon fiber-reinforced plastic (CERP) and glass FRP, instead of steel tubing. Such an innovation drive shaft also reduces sound vibration, Nissan engineers say.

Because Nissan expects tomorrow's luxury and sports cars to come equipped with a range of data communications options – including telephones, facsimiles and computers – it is working on a body-conforming antenna. The circular receive-only and transmit-and-receive antennas are located just under the surface of the NEO-X's plastic trunk lid.

To support this level of research, Nissan spends heavily on R&D. In the fiscal year ended March 1990, it spent Y180bn; this year it will spend Y220bn; and its projection for the year through to March 1992 is Y240bn. Japan funds by far the largest aggregate level of automotive R&D, which is spreading beyond the archipelago nation to research centres in North America and Europe.

Class barriers fall

TWO YEARS ago, the world had yet to set eyes on Lexus or Infiniti, the luxury divisions of Toyota and Nissan.

Today, Lexus and Infiniti are high among the industry's talking points, having done the unthinkable: challenged the grandest names in the world's luxury car business and come away, if not with victory, then at least with high scoresheets.

For a first attempt to crack the exclusive Jaguar-Mercedes-BMW-Cadillac market, the Japanese have done well and beneath the bold front, the Europeans and Americans are shaken. Some surprising opinions have been formed. Top luxury cars manufacturers are saying defensively it won't be they who feel the heat from this Japanese invasion but those lower down the scale.

Those in that position are taking the opposite view. It is the Jaguars and BMWs who will bear the brunt, they say.

The inevitability is that everyone will have to try that much harder especially as within two years, Lexus and Infiniti are expected to be joined by similar upscale products from Mazda and Mitsubishi. Perhaps Honda, whose Acura luxury division was the precursor to Lexus and Infiniti in the North American market, where the Japanese have decided to launch their first luxury car assault.

Prime mover in the field and, is Toyota's Lexus LS 400. It was developed from scratch, with a virtual open-ended budget by Japan's richest company. The LS 400 is an imposing car inspired with a close eye on the Mercedes S-Class and its contemporaries.

An original, it might not be (not in terms of styling at any rate), but technically, the LS 400 is very good. No other car can match the Lexus's supression of engine noise. Its multi-valve 4 litre V8 is the smoothest and quietest there is. Such characteristics, allied to high building quality, driveability and sure footed handling have got Lexus off to a very positive start. The fact the LS 400 is substantially cheaper than the top European and US rivals is another clear reason for its success.

The most important asset for a luxury car is the right image and this is something Lexus and its like will have to work hard to attain. To reach that goal, high manufacturing quality and reliability plus exceptional customer satisfaction obtained via service from hand-picked dealers is seen as the short cut to the kind of status it's taken, say, Mercedes over 100 years to reach.

The LS 400 has drawn a higher profile than its smaller, Camry-based ES 250 cousin, which in the US it is now out-selling by two-to-one. That's another surprise because it was thought the cheaper car would chalk up the higher volume.

Significantly, the Lexus is also putting the Q45, its Nissan-made V8 rival in the shade and for a number of varying reasons.

That the LS 400 went on sale in the US last September at an earlier date than the Q45 and has the benefit of a larger dealer back-up (Lexus numbering 103 US dealers by the end of June, to Infiniti's 64) goes part way to explaining the difference between the two.

At the half-year point in the US, Toyota had sold 19,057 LS 400s to Infiniti's 6,032 Q45s. Toyota has begun to sell the LS 400 in Europe (although not through a separate Lexus sales division) and Japan as the Toyota Celsior.

Since Nissan has stated it will only market the Infiniti flagship in the US and Japan, the Q45 will inevitably be much rarer on the ground. Nissan's controversial ad campaign to launch Infiniti in the US is seen as playing a part in the marque's slow start. Perhaps unwisely, the ads showed not the cars but rocks and trees.

Infiniti's chief engineer, Mr Takahashi Oka, conceeds that while the ads were good for fixing the identity of the Infiniti in the mind, they were less successful in promoting the product. The ads have now been changed – to show the Q45 and its smaller cousin, the M30 coupe. But the chance of a brick launch platform for Infiniti has been missed.

In may ways, the Q45 is just as outstanding as the LS 400. But while the latter has been conceived as a luxury car in the established sense, Nissan had deliberately flaunted tradition.

The engine, instead of being near silent, is enthusiastically loud and racy. At the front, there is no ornamental grille, just a simple badge. For a luxury car, the Q45 is unnaturally fast and fun to drive, while the styling is out of the ordinary.

Toyota's Lexus: at the head of the move into the luxury class

Time will tell whether the Q45's avant garde approach and indeed the whole Infiniti division picks up pace. Not that there's any public note of concern from Nissan as yet, the message from Ginza HQ remaining one of resolute, long-term commitment.

Indeed, Nissan plans to add several new models to the line up over the next couple of years to lift its standing, including a federalised version of the Nissan Primera saloon, to be called Infiniti G20.

There is speculation of an mid-engined supercar, powered by the 4.5 litre V8 from the big Q45.

This could be called M45. Also, in three years time, the US Infiniti dealership will be expanded to 150, although this will still be fewer than the 300 plus Lexus network.

In the Toyota camp, a new V8 two-door coupe based on the new Japanese Soarer is due from the Lexus division. The new Lexus coupe is predicted to be a keen rival for Mercedes' 560 SEC and the Jaguar XJ-S.

The level of backing and attention to detail Toyota and Nissan are devoting to Lexus and Infiniti underlines their determination to succeed. Moreover, standards are being set that, should they wish to follow, Mazda and Mitsubishi will have to emulate.

Mazda is intending to launch an upscale, Lexus-style saloon about 1992, powered by the triple rotor Wankel engine derived from the new domestic Cosmo coupe. The rotary engine is as smooth and powerful as a conventional V12. The car is expected to be marketed through a new Mazda US division, which could be called Pegasus.

Mitsubishi's plans seem less well formulated. A new V8 engine is now on the test bed but analysts in Japan feel the project could be put on hold – along with Mazda's – should another oil crisis result from the Iraq affair.

America's severe proposals for future CAFE (Corporate Average Fuel Economy) standards are casting shadows over Japan's new luxury cars and could cause some ambitious plans to be throttled back.

For the moment, Lexus and Infiniti have tended to overshadow Honda's pioneering Acura division, set up in 1986 in the belief that US buyers would be prepared to pay a premium for Japanese cars.

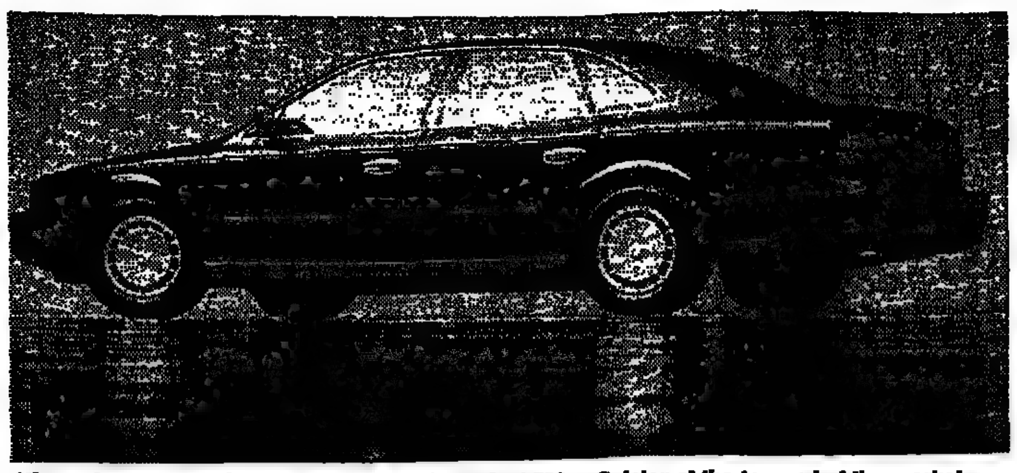
Honda has had a profitable business selling the Legend and Integra as upscale Acuras in the US. But now the highly-acclaimed 3 litre V6 sports coupe joins the fold. With a $60,000 price tag it is the most expensive Japanese.

The charismatic NSX symbolises Honda's sporting direction for Acura and unabashed confidence in challenging Ferrari head-on, something that wouldn't have been attempted five years ago. But times change and Honda's incredible F1 success has given the car instant credibility.

The NSX would also seem to move Acura away from a direct confrontation with the financially stronger Toyota and Nissan pair, the NSX being clearly a different type of car to the Lexus and Infiniti saloons.

If Honda is going to produce a V8 luxury car to rival the LS 400 and Q45, as has been widely rumoured, then it is likely to be with a new car, introduced within the next couple of years. But for Honda, still a relatively small company in absolute terms, that would represent a large call on its stretched resources.

Two years ago, Lexus Infiniti and Acura were still in their infancy, but from now on, the Japanese are likely to become formidable players in the lucrative sector.



Nissan launched its Infiniti Q45 to rival Toyota's 4,500cc Celsior at the top end of the market

JAPAN

Rising oil costs could hit domestic demand

LEADERS OF the Japanese car industry, the backbone of the country's flourishing economy, are keeping a close watch on developments in the Middle East.

For the Gulf crisis, which is almost certain to push up the price of oil in Japan and spark off a domino effect of higher interest rates, rising prices and diminished spending by consumers, could also bring an end to long run of growth in sales and profitability the industry has enjoyed.

Japan has been the world's largest car maker for ten consecutive years. In recent years, domestic demand has soared in what some see as Japan's new auto age, with over 75 per cent of the population owning at least one car. In the late 1960s, the last demand surge, car ownership grew from a fad to became the norm. Twenty years later, those owners are aspiring to greater things, and top-of-the-range autos are now becoming commonplace.

According to a recent survey, in the past two years, 39 per cent of cars purchased cost more than Y2m. It is not an unusual sight to see, parked in a row in a narrow Tokyo street, a Mercedes Benz, a BMW or two, a couple of Nissan Infiniti Q45s and perhaps a Rolls-Royce.

This adds up to a lot of smiling faces at car company headquarters. Last year, a total of 5.5m vehicles were sold in Japan, with sales of standard cars (with engine displacement 2,000 cc or more) leaping by an astonishing 66.5 per cent, according to the Japan Automobile Manufacturer's Association (JAMA). The jump was attributed mainly to the elimination of the commodity tax in April 1989, which cut retail prices of products at the top end of the market by over 10 per cent, and spurred consumers to enter the 1990s on a luxury shopping spree.

The giant of the domestic scene, with a 42 per cent market share, is Toyota Motor. In the year to June 30 1990, it topped for the third consecutive year the list of large Japanese corporations with the highest income. With pre-tax profits totalling Y733.8bn, a booming 28.8 per cent rise on the previous year, and sales up 11.2 per cent to Y7.998bn, it was well ahead of other car companies, although they also reported robust increases.

In fact, the only concern of the eleven Japanese manufacturers in the past year has been that they would be unable to cope with the booming demand. Already facing a domestic labour shortage, which they feared would push wages up to unrealistically high levels, the groups were spending much of their time trying to find ways to cope.

The solution adopted by most was, firstly, to shift marketing efforts away from the United States to the home front – a timely step, since the imbalance in the bilateral auto trade was one of the main issues discussed at the Structural Impediments Initiative talks between the two nations earlier this year. Following the conclusion of the talks in June, Japan reduced exports and transferred a large part of its production process to the US.

Secondly, manufacturers, buoyed by consumers' continuing enthusiasm for new cars, finally gained enough confidence to sink large sums of money into building new plants and expanding production, without fearing a bottoming out of the market.

In the first half of this year, the total combined output of the 11 manufacturers hit a record 6.65m vehicles, up 0.9 per cent on the January-June period last year, according to JAMA. Of that figure, passenger cars accounted for 4.9m units, up 10.4 per cent, most of which (3.94m) were sold in Japan. Exports fell by 5 per cent in the same period, to 2.5m vehicles.

The sum of investments planned by major car companies for fiscal 1990-91 was nearly 24 per cent more than the previous year, which in turn was 15 per cent up on 1988. Investment has been channelled in different ways in the past two years or so. Encouraged by the trend towards luxury goods, most companies have earmarked large amounts of capital to develop bigger cars with additional accessories, rather than merely increasing the output of existing models, said a JAMA spokesman.

Toyota's plans include expanding the production line for luxury sedans at its plant in Aichi Prefecture in central Japan. It will also reduce its exports to 1m cars annually by 1992, down 30 per cent from the peak period in 1985. The company, which successfully launched the 4,000cc Celsior (known as the Lexus overseas) – touted as its "highest grade" vehicle – last autumn, aims to chalk up annual sales of 2.5m cars within the next few years.

Toyota's closest rival, Nissan, launched its own top car, the 4,500cc Infiniti Q45, to compete with the Celsior and surprised even itself with the robust sales – nearly 1,500 in the first eight months. Nissan will boost production of automatic transmission vehicles at its Shizuoka factory in the coming year, and build an extension at another plant.

Honda is the only one of the big five car makers not planning to increase its capital spending in 1990, due to the recent completion of a third production line at its main factory. Mazda's high capital outlay is for the planned construction of its second factory in Yamaguchi Prefecture.

In the coming years, Japanese makers plan to maintain their curb on exports to the US, although shipments to Europe and south-east Asia are likely to increase. Most companies are shifting into top gear to prepare for European unification by setting up plants and facilities in Britain and France, and tentatively moving into eastern Europe.

Nissan is the only Japanese company so far to start marketing its cars in East Germany. Although demand there has soared in recent months, Japanese groups appear hesitant to launch full-scale operations for two reasons: they fear the current upsurge in demand will subside, and they are worried about causing friction with West European makers who have shown strong interest in the market.

However, they are considering making a claim. Toyota has extensive plans to move into east Europe this year, as do most of the other large manufacturers. Mazda planned to have exported 500 passenger cars to East Germany by the end of August 1990, and to have set up 19 sales and service outlets in the country; and Fuji Heavy Industries aims to sell 2,000-3,000 cars there during 1991, through its 50 newly established dealerships.

The smaller groups remain more interested in strengthening their domestic stances. Daihatsu, the top maker of minicars – those with engine displacement of less than 550cc – has been riding the crest of a minicar boom in Japan. Its sales for July this year rose 9.2 per cent over the previous year, although overall sales for the year were down 3.2 per cent. The future looks good for Daihatsu, and other smaller makers – even a petrol price hike could work in their favour, as consumers would turn to minicars in an effort to economise.

Industry watchers believe that, even though petrol prices look likely to rise by about Y10 a litre from the current level of around Y120 and inflationary pressure is growing, the major car companies will maintain their place as the driving force behind the advancing Japanese economy into the 1990s.

Martina Gannon

BMW's 12 cylinder 850 has right-hand drive for added prestige

Foreign cars are sought after in Japan for their status value with West Germany leading the way

The high cost of cachet

ONE OF the greatest status symbols in Japan, aside from owning a Van Gogh painting or a large amount of gold, is to be the owner of a foreign car. For in this country, the robust and growing economy of which is underpinned by the thriving car industry, scarcity value is the key to prestige.

Which is good news for foreign car makers, particularly those with luxury, top class vehicles. Buoyed by what is known as the triple merit of Japan – low interest rates, a strong yen and soaring land and equity prices – the foreign car market has grown by a steady 30 per cent annually in the past four years.

Imported passenger cars still make up a meagre 4.5 per cent of the total market in units, but their price tags are far higher than most domestic models, so the market share is not as negligible as it appears.

A record 113,600 imported passenger cars were sold in Japan in the first half of this year, a 39 per cent increase over the January to June period last year, according to the Japan Automobile Manufacturers' Association (JAMA). West German makers maintain their firm grip on the market, with Volkswagen clinging to its number one slot for the second consecutive year in spite of a strong challenge from BMW.

But French and British makers are chasing the West German leaders, who hold a consolidated 60 per cent of the imported market. In the first half of this year, the number of newly registered French cars leapt 60 per cent, compared to the 32 per cent rise in West German models.

Some see this as a natural result of the runaway success of West German cars – for in Japan, as elsewhere, popularity can become self defeating. Car buyers, along with most other consumers, are constantly searching for that elusive, exclusive and, of course, expensive product that will elevate their status. So importers find themselves treading a thin line between attempting to lift sales while preserving their elite image.

One group which seems to have found the key to success in Japan is BMW, which controls a 16 per cent slice of the foreign car market. It forged the way for others as the first overseas car group to set up its own dealership network in Japan – but manages to maintain the high profile and fierce competitive edge that was created by its early start.

BMW Japan, a wholly owned international subsidiary of Bayerishe Motoren Werke, stuck its neck out in 1981, by deciding that the best, and perhaps only, way to carve a niche in the tight Japanese market was to establish its own chain of showrooms selling its vehicles alone. In order to do this, the group invested large amounts in prime-location land upon which to build showrooms and service centres. And the gamble paid off: The number of registered BMWs in Japan rose from 3,600 in 1981 to 33,000 last year – up 800 per cent. Imports in the same period jumped 370 per cent to 180,420 vehicles.

"The key to BMW's success is threefold," says spokesman Mr Akio Seki. "We have our own network, which is most important as we can market the cars in our own unique way, and each sales outlet is also a service centre; we train all our own staff, both in the sales and service sectors; and we have our own finance company." In 1984, when car loan interest rates averaged 15 per cent, BMW launched a pioneering 9.5 per cent loan, since reduced further.

The company is proud of its image as an efficient, top class manufacturer, he added. It recently opened a large parts manufacturing plant in Chiba Prefecture, east of Tokyo, and has set up a 24-hour nationwide recovery and maintenance service. Next year, the group's new showpiece headquarters, the largest of all foreign car companies in Japan, will start operations in Chiba's business zone.

Mr Seki added: "We realise that becoming too popular could be a problem in Japan, but we really don't think that situation will occur. We are concentrating on offering top quality models, with an efficient follow-up service, and we think a certain section of Japanese consumers will always want that."

BMW is aiming to up sales in Japan to 50,000 a year by 1995, which would amount to about 10 per cent of the group's total production. It will introduce a new 520 model in November this year, followed by a 730 model, bringing the total number of lines on offer to 24. Both the new cars will have left-hand drive systems (cars run on the left-hand side of the road in Japan). BMW's top car, the 12 cylinder 5,000cc 850 model, has right-hand drive for added prestige, as if the price tag of nearly Y14m were not enough.

The company will raise the cost of 13 of its models by an average 3.5 per cent from November, to offset the recent strengthening of the Deutschmark against the yen. The increase, BMW's second this year, will bring the price of a standard 3 series 4 door model up to about Y3.9m.

The success of BMW, and other West German manufacturers, goes some way to placating critics of Japan's uneven vehicle trade balance. For, although the number of cars exported to West Germany is still more than double the number imported, the actual value of Japan's exports is much smaller, according to the Ministry of International Trade and Industry.'

The fifth ranking foreign car company in Japan, with an almost 6 per cent share of the market, is Britain's Rover Group. Sales by Austin Rover Japan grew 44 per cent to 8,600 cars in the first half of this year, mostly due to the popularity of the Mini.

The group, which recently opened its 109th sales outlet in Japan, has decided to prolong production of the 1,000cc car - scheduled to cease in 1993 - for a further four years partly because of its runaway success in Japan, its fifth biggest market.

Underpinned by nostalgia, monthly sales of the Mini – which has hardly changed since it first rolled off the production line in 1959 – exceeded sales in Britain for the first time last year. The Rover Group, which also markets French maker Peugeot's vehicles in Japan, aims to raise its sales to 30,000 annually by 1992. It introduced the four-wheel-drive Range Rover in April this year, and will launch a Peugeot model in September in an effort to spur sales.

All the groups have extensive plans to increase profits this year, with most opening new dealerships and introducing higher grade models.

Isuzu Motors, which deals in vehicles made by General Motors of the US, started importing Adam Opel cars from West Germany at the end of 1988. It will add 30 outlets to the current 106 by the end of this business year, aiming to raise sales to 5,000 annually from last year's 1,400.

Fuji Heavy Industries, which imports Volvos from Sweden, plans to lift sales, as does the country's biggest importer, Yanase which deals in Mercedes Benz and Volkswagens, among others. Imports from the US have gained this year, led by the increased sales of Honda's Accord coupes, built in Ohio.

Foreign car companies can look forward to a successful decade in Japan, as there is little doubt that imported cars will continue to gain popularity, but whether the leaders can hold on to their dominant position will depend on their marketing skills and the maintenance of their elite image.

Martina Gannon,
Tokyo

Ian Rodger profiles Honda's new executive vice president

Geared up for big changes

HONDA MOTOR startled the world motor industry in May with an announcement of a complete overhaul of its top management.

Mr Tadashi Kume, the former development engineer credited with bringing style to Japanese cars, and two other directors retired, and a troika of executives, Mr Koichiro Yoshizawa, Mr Nobuhiko Kawamoto, and Mr Shoichiro Irimajiri, came in as chairman, president and executive vice president respectively.

Mr Irimajiri, a graduate in aeronautical engineering from Tokyo University, followed the well-worn path at Honda through the group's research and development subsidiary before entering general management. In 1982, he became the president of Honda's main factory at Suzuka in Japan, and in 1984 went to the US as president of Honda of America.

In 1988, he returned to Tokyo to become managing director in charge of worldwide manufacturing and maintains his international responsibilities in his new position.

Mr Irimajiri expects big changes in the structure of the world car industry in the next few years, and one of the triggers will be the resolution of the uncertainty over Chrysler's future.

"They will find a partner somewhere in the world. Without help, it would be difficult for them to survive in the passenger car business. The key word for survival is model change, and Chrysler does not have the technology. Their research and development resources are relatively small compared with world class makers."

He believes Chrysler will be rescued by a non-US company, but insists it will "absolutely not" be Honda.

"We are very busy building good relations with Rover," he says in reference to the group's design and production association with the UK motor group.

On that partnership, he says its further expansion depends entirely on the success of Honda's sales in Europe and thus on the expansion of its dealer network.

The company's presence in many European countries has been limited by restrictions on

Shoichiro Irimajiri

Japanese cars, but now these are easing. Honda has just established a marketing subsidiary in Italy, for example, and Mr Irimajiri says demand there is very strong.

"If we succeed in enhancing our dealer network, then we will need more cars from our own and Rover's plants." The company is working with Rover to increase output next year and is looking forward to the opening of its own plant at Swindon in 1992.

'It will be difficult to draw a line between Japanese and US cars'

At the moment, Honda sells 150,000 cars a year in Western Europe, of which 40,000 are made by Rover. Approximately 24,000 are sold in the UK.

Honda is trying hard to avoid causing anxiety in Europe. Its medium term target is to sell 300,000 cars in Europe, about 3 per cent of the market - "a very modest number", Mr Irimajiri says.

The company is also not inviting its main Japanese component suppliers to set up in Europe, preferring to develop links with local suppliers. So far, only Nippon Seiki, a maker of speedometers, has made the move, and it did so on its on.

In a similar vein, he ducks the controversial question of transitional restrictions on Japanese imports into the European Community after 1992.

The issue is one for governments to settle, he says. "We believe strongly in free trade, but we are not saying anything on this."

He says Honda is interested in eastern European markets but it unlikely to start active selling there for some time. The priority is on building up a proper service network for the existing park of Honda vehicles in the region. "We think the most important thing is to maintain the reputation of our products."

Honda's ultimate aim is to have fully independent operations in Japan, the US and the EC. Mr Irimajiri says the three would design and produce models mainly for their own markets, but they would buy special ones from each other, and headquarters would play merely a co-ordinating role. "The closest model is General Motors's relationship with Opel in West Germany," he says.

Honda's US operation is already quite advanced along this route, with large manufacturing capacity and a 10-year old research centre with a staff of 350.

"They are big enough to develop versions of models, but not yet to develop their own whole car. In the UK, our R&D centre is still spending most of its time transfering manufacturing know-how from Japan to UK suppliers. I hope the development rate will be faster in the UK because of our co-operation with Rover. In the US, we have had to do everything by ourselves."

As the overseas subsidiaries become more independent, he believes the danger of protectionist moves against Japanese cars will decline. For example, he does not think a ceiling will be put on Japanese badge car sales in the US. "Products made in the US have more and more local content. All major Japanese manufacturers are going to be US manufacturers, complete with research and development as well as local content. I think it will be very difficult to set a clear border line between Japanese and US cars."

Honda has a reputation for innovation, and has recently achieved considerable progress in reducing the time it takes to develop new models.

Mr Irimajiri says the company can now design and develop a new car in "less than 36 months", and is aiming to get it down to 24 months. He believes that the speed of development will remain a major competitive factor in the future, provided it is accompanied by a shorter model change cycle. Honda now changes every four years and has no intention to reduce it for the time being. "It has to be shortened, but some European makers do not want to."

Nevertheless, the company has been caught by surprise by the success of Nissan and Toyota in launching huge luxury cars.

"When we launched Legend, we thought it was a luxury car. We still think of it as one." He says the company has no plans for that sector, other than having Legend evolve.

Indeed, one of his main concerns at the moment is how quickly the market will react to the Middle East and environment crisis and turn to smaller cars.

"The consumer trend at the moment is toward luxury cars, but everybody knows there will be a big change in the 1990s. So we are working on both sides. It is very difficult because we do not know the timing."

For the moment, he is delighted by the strength of the Japanese market, which he sees as a reflection of the confidence of the Japanese people in their competitiveness.

However, he believes that imports, which now account for 4.5 per cent of cars sold in Japan, will double by the middle to late 1990s.

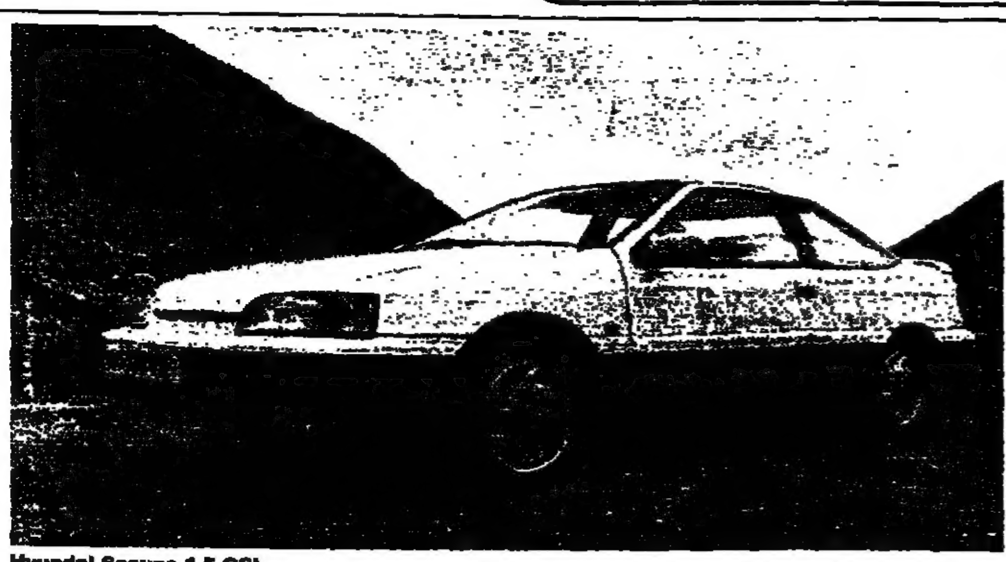
"Consumers are diversifying their tastes very rapidly," he says.

He also predicts that a growing portion of these imports will be made by Japanese companies. "Japanese cars made in the US will come in large volumes - 50,000 to 60,000 a year," he says. Honda alone plans to import 12,000 this year.

Honda has become a leading participant in the Formula One racing circuit in a period when many other motor companies have decided that the publicity is not worth the cost. Mr Irimajiri, who was president of Honda Racing for a year in the early 1980s, thinks it is still worthwhile for Honda, not least because interest in Formula One racing is new and growing in Japan. "We see it as a kind of symbol of Honda, the spirit of our business, and we think it continues to be effective."

SOUTH KOREA

Export hopes grow



Hyundai Scoupe 1.5 GSi

OVER THE last few months, the US showrooms of Hyundai Motors, South Korea's largest automobile manufacturer, have been making space for a new arrival. The Scoupe, a sportly looking model aimed at younger drivers, is being unloaded at US ports by the thousand. This month they go on sale to US customers.

Mr Lee Soo Il, managing director of Hyundai Motors, says that Hyundai aims to sell about 30,000 Scoupes in the US by the year end and that the new car makes him more optimistic about the company's export prospects. Successful new models are badly needed to revive South Korea's automobile export drive.

After a spectacular debut in 1986 and 1987, exports of Korean cars fell by 40 per cent to 356,000 units last year. This year, saw a miserable first half with volumes down by about 24 per cent, over the comparable period. There are some signs of recovery. In July, car exports of $172m represented a 33 per cent increase over the same period in 1989, and the Korea Automobile Manufacturers Association believes that last year's export figure could possibly be exceeded.

Whether that can be achieved will depend partly on how international customers take to new models such as the Scoupe and a new medium sized car from Daewoo Motors, a 50-50 joint venture between Daewoo and General Motors.

No less important is the continuation of industrial relations harmony, low wage increases and favourable exchange rate movements which emerged this year, in contrast to 1988 and 1989. Even if exports fall short of targets, workers at the country's five automakers are likely to be kept busy. The domestic market, fuelled by the same wage increases which helped erode South Korea's international competitiveness over the last few years, continues to thrive and more than compensates for the drop in sales overseas.

In the first half of the year, domestic sales rose by a robust 37 per cent to 437,000 units, more than offsetting the fall in exports and lifting overall sales by 12 per cent to 563,000 units. For the year as a whole, KAMA forecasts that out of total production of between 1.2m and 1.3m units, over 900,000 units will be sold in South Korea. The shift from exports to the domestic market is illustrated by the fact that the proportion of sales accounted for by the domestic market is expected to rise from 68 per cent last year to about 72 per cent this year.

While the domestic market remains strong and exports are improving, both areas contain problems and challenges. On the domestic front, there is the question of how long the strength of consumer demand can continue, given the traffic congestion in South Korea's cities and the slower rate of income growth this year.

Forecast annual inflation of over 10 per cent implies a fall in real wages for many workers and the wealth effect of Seoul's tumbling stock market will also hit disposable incomes. But many analysts, including Mr Suh Jun Sung, executive director of Daewoo capital management, believe that domestic demand will remain strong.

Mr Lee Dong Wha, of KAMA, argues that the ratio in South Korea of 14 people to each car is far higher than in other countries and compares with about 10 to one in Taiwan. Nonetheless, South Korea's geography and the high concentration of the population in a small number of urban centres means that Korea's roads are already under strain. The domestic market may prove less attractive by virtue of increased capacity and even the prospect of new entrants.

All of the existing manufacturers – Hyundai, Daewoo, Kia, Ssangyong and Asia – are expanding production lines or upgrading plant while Samsung, South Korea's largest conglomerate is considering entering the sector. Its plans may have been temporarily set back by the Government's refusal to allow technology imports from Nissan Diesel of Japan, but many analysts expect the group's designs on automaking have been delayed rather than ended.

In the international market the difficulties are greater. The US, which is still by far South Korea's largest export market continues to weaken, while the prospect of recession there implies the situation is likely to become still more difficult. In response, the five Korean manufacturers are undergoing bold diversifications.

Exports to south east Asia and eastern Europe have shown healthy growth. While such diversification is a step in the right direction, however, the US still accounts for almost 70 per cent of total exports. The prospects for exports are, however, improved by the reversal of a series of external factors which contributed to the recent poor performance.

The exchange rate has depreciated by over 5 per cent against the dollar so far this year, although the benefits have been reduced by a still weaker yen. More significantly, wage rises and industrial unrest have been respectively much lower and much fewer in 1990 than the preceding three years. According to KAMA, wages have risen by an average of 7.5 per cent so far this year compared with wage awards of between 16 and 22 per cent between 1987 and 1989.

The series of strikes which disrupted production and affected quality during the same period all but vanished during this year's spring wage bargaining round.

Some progress is also being made in technology development. The Scoupe and Excel have been developed almost exclusively by the Hyundai while the four other manufacturers are also improving their capability in design and engineering. But for larger cars in particular, dependence on foreign parts and technology remains high. A recent report by the Ministry of Trade and Industry claimed that South Korean automakers often use over 30 per cent foreign parts in cars of 2 litres and above.

Improving their own design and technology capabilities as much as exchange rate movements and the industrial relations climate will determine whether South Korean automobile makers can resume their impressive record.

John Ridding, Seoul

Daniel Ward *explores the latest moves at recycling vehicles*

Designs on disassembly

MANUFACTURERS have learnt in the last decade how to design cars to be welded, painted and, increasingly, assembled by robot to the point where the demands of automated manufacturing heavily influenced the design of models such as the Volkswagen Golf and the Fiat Tipo.

Europe's car makers must take on board the need for recycling the 13m new cars sold in western Europe annually, having reacted to the challenge of Japanese efficiency. The priority for manufacturers is to discover how models can be designed so that they are easier to disassemble. Several car makers have raised the spectre of dismantling plants being built alongside car assembly factories in order to complete the recycling loop. New West German laws force supermarkets to take back packaging from customers, however the logistics for the car industry to follow suit are considerably more challenging.

West Germany, lead by BMW, Mercedes-Benz and Volkswagen, has embarked on initiatives to discover the design techniques needed for efficient recycling.

A note of caution must be sounded about designing cars to be recycled because benefits are long-term. Any design techniques discovered today would take, perhaps, five years before they appear on a new model which may then go on to survive for 15 years. Environmental gains in the short-term will come from better recycling on existing cars and components.

In West Germany BMW and Mercedes-Benz repair plastic bumpers which are then sold at a discounted price by dealers. The Stuttgart company is working on ways of recycling 100 per cent of car batteries, while used oil, engine coolant and brake fluid are collected by dealers and recycled for other uses. The exchange of damaged exhaust catalytic converters for new ones by dealers so that the rare metals used in the converter can be recovered has been widely adopted in West Germany. Damaged plastic body panels from the BMW Z1 sports car are automatically returned to GE, the supplier of the original panels to BMW.

Today's scrap yards may not have an environmentally friendly image but they represent the state of the art in recycling. Crashed or old cars are stripped of any serviceable components, and before the remainder is crushed for remelting, there is some separation of aluminium from steel. VW estimates that 75 per cent, by weight, of cars scrapped is recycled. The rest, almost certainly end up as land-fill.

In an environmentally aware society land-fill will become increasingly expensive in order to deter it. Consequently, it will be worth salvaging a much higher proportion of the scrapped car. Dr Rolf Buchhiem, head of new technologies in VW's research and development department in Wolfsburg, believes that by finding ways of recycling plastic and glass as much as 90 per cent of the car can be reclaimed.

The main challenge is to find economic methods for dismantling the vehicle so that the many different materials can be separated and then individually recycled. BMW and VW have pilot recycling plants in operation and Mercedes-Benz has firm plans to invest in such a plant.

VW's Leer plant, located close to the Passat factory at Emden, processes 20 cars daily. When the two-year programme is completed Dr Buchhiem believes VW will know how to economically disassemble scrapped cars and will have developed the new tools needed for rapid dismantling and the engineers will know how to design models for recycling.

Dr Buchhiem says: "Disassembly is very different from assembly. Time is the most important thing, also we need to have the materials separated." Research data from Leer highlights what must be done to recover the largest plastic mouldings.

The Golf's plastic front bumper, weighing 4.7kg, can be removed in one minute but an additional 30 seconds is required to separate the various grades of plastic, an essential step in the process when readily recyclable thermoplastics are joined to theromoset plastic parts which must be ground down mechanically.

Separating the different types of plastic takes proportionally longer when dealing with the Golf's plastic fuel tank which weighs 8.1kg. It can be removed in four minutes but a further three minutes is spent separating the materials. In future, it is likely that the need for recycling will constrain engineers from mixing plastics for important mouldings such as the bumpers, fuel tank and facia.

However, there will be many difficult decisions to be made because no manufacturer will be prepared to compromise the design or function of the new model simply to make recycling more economic some 15 years later. The aim will be to make as much of the car recyclable as practical rather than set 100 per cent recycling as the unquestioned goal.

For Mercedes-Benz there is nothing new in grinding down damaged plastic parts and re-using the materials to mould new low-grade plastic components such as the protective inner wheel arch cover or the boot liner. However, Dr Buchhiem believes this policy is seriously flawed.

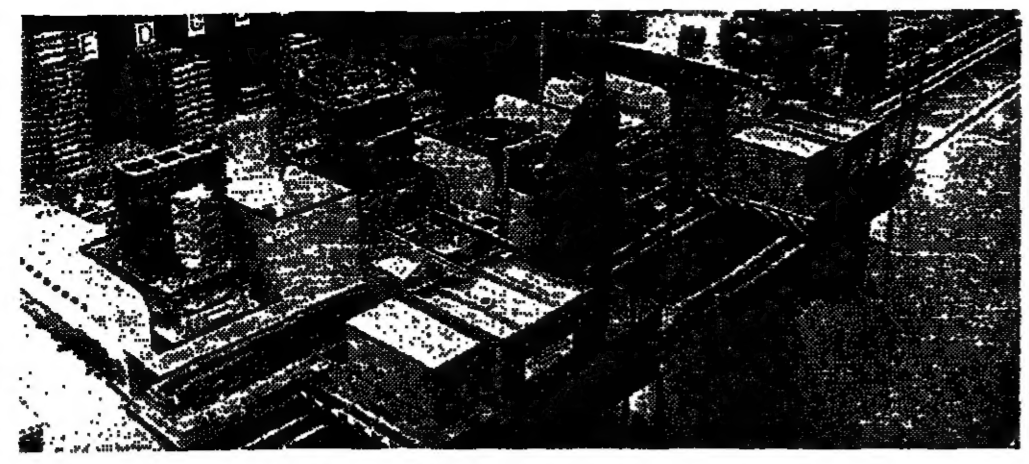
"Our goal is to re-use the materials at the same high level that they were used for originally. We do not believe in the cascade philosophy. The aim must be to use the fuel tank plastic again to make fuel tanks and the same for high strength aluminium." VW's recycling expert argues that the cascade process would lead to a surplus of low grade material which would create recycling problems.

The industry appears confident that it can find ways to recycle almost every material. However, success is unlikely to give car designers any respite from environmental pressures. Once recycling has been tackled it is not difficult to see manufacturers being forced to consider, in the face of high energy costs, ways of minimising the energy used by a car from manufacture through to recycling.

Du Pont's development vehicle was built at a cost of DM1m. It contains some 100 applications and components using Du Pont materials and technologies. The car industry is the company's single biggest customer

Arthur May looks at component suppliers' links with car makers

Partners with new status



Component marshalling in a Rover high technology centre

COMPONENT producers, or rather a select band of them, are basking in a new status – as partners of the vehicle manufacturers.

Gone are the days when they produced bits and pieces according to a customer's drawing and won a proportion of the available business on the basis of putting in a low quote. Now this elite group of first-tier component suppliers are becoming integral members of a vehicle manufacturer's development team, and are being rewarded with single source, long-term contracts.

There are several reasons for this change, but all relate to the need for vehicle producers to incorporate the latest technology in their products and manufacturing processes at the same time as they face up to an intensification of global competition.

In order to compete effectively in the world markets of the 1990s it will be necessary for car manufacturers to meet two conditions. First, to reduce unit costs to the point where they are as close as possible to those of the lowest cost producer. Second, to maintain momentum in the market place through the frequent introduction of new models which feature the latest technology.

Both imply keeping pace with Japanese competition and both require a greater dependence on component suppliers. For a start, it is clear that the balance of technological power is shifting from the vehicle producers to the component suppliers, a change which is widely recognised and accepted by members of the former group.

The pace of technological innovation is so rapid, and the expenditure so high, that even the largest of the vehicle producers can no longer maintain control over the entire range of development work. Many in-house component operations are being sold or closed due to their inferior economies of scale in manufacturing and the impossibility of sustaining an adequate research budget.

In contrast, the components industry is undergoing a substantial restructuring process on a global basis. Leading component groups are focusing on product sectors where they enjoy technological leadership and are divesting themselves of fringe activities. In this way, the cost of increasingly heavy research and development budgets can be spread over a high volume of output. When choosing a supplier the two main attributes looked for are the ability to produce to a consistently high quality and to demonstrate an elevated level of technological competence.

Only after these considerations have been satisfactorily met is the question of price addressed. In cases where quality and technology is right but price is wrong, the vehicle producer will often work in partnership with the supplier to improve productivity and reduce the cost of manufacture. Moreover, having established a supplier base, vehicle manufacturers are showing a marked reluctance to chop and change.

A good example of this is seen in North America where the newly established Japanese component producing operations (set up primarily to supply the Japanese transplants) have not succeeded in making the anticipated inroads into the Big Three's business. Acknowledging that there was scope for improvement, the US car producers have remained loyal in the main to their domestic suppliers and given them the opportunity to put their house in order.

In other words, the tendency to play one supplier off against another is diminishing. Where problems occur the typical solution is to discuss the issues in an atmosphere of patience and understanding and, if appropriate, provide assistance. But if problems persist the supplier will be replaced. It is hardly surprising therefore that the nature of component sourcing is changing.

The purchasing function at a vehicle manufacturer is moving away from the procurement of individual components which are fully designed and specified towards controlling the development and purchase of a complete assembly or system. This can only be achieved if the supplier becomes involved at an early stage in the design and development of a new model.

In a growing number of cases the suppliers have personnel who are working as integral members of a customer's vehicle development team. This is important because it is only at this stage that new technology can be incorporated effectively. This approach is tied into the concept of simultaneous engineering whereby production engineering is carried out at the same time as a new model is being designed and developed.

At the outset of a new project a team is set up representing all the vehicle manufacturer's operating departments with the aim of defining requirements, including the systems which should be bought in and their performance standards. Thus at an early stage the first-tier suppliers are selected and become full members of the project team.

Simultaneous engineering has two crucial benefits. It shortens the time taken to bring a new model into production, and it enhances quality since the production department is involved throughout and is able to identify and rectify potential problem areas before output begins.

There is also a growing understanding between vehicle producers and their suppliers that they are partners in terms of mutual survival. Failure to provide components and systems at the lowest possible cost and highest possible quality and technological content means that the customer's position in world markets will be eroded.

For their part, vehicle manufacturers realise the need of their suppliers to earn decent profits and thereby generate the wherewithal to meet future investment needs.

It is easy to be cynical about this new spirit of partnership between vehicle manufacturers and their component suppliers. After all, it is difficult to break the habits of a lifetime and they have traditionally adopted an adversarial stance towards each other, not least when it comes to price negotiations.

It would be wrong to suppose that this mood will change quickly or completely, especially since the vehicle manufacturers are looking for productivity improvements at their suppliers to facilitate price reductions in real terms. It could be argued that the vehicle manufacturers are taking big risks in placing their trust in a limited number of increasingly powerful component groups.

It is unlikely that any product area will become dominated by a single supplier, and the move towards global sourcing suggests that there will be some protection against any supplier who abuses that trust. In any event, as competition hots up, the realisation that each side's survival depends on the other will ensure that the ties of partnership will strengthen.

Harmony has broken out in labour relations, says **Mike Smith**

No time for confrontation

A DECADE ago it would have been impossible. The idea of unions at a British car plant agreeing to the introduction of continuous 24-hour working for production workers would have been scarcely credible in itself. To reach broad agreement in less than three months of harmonious talks would have been virtually unthinkable.

Yet this is what happened earlier this year at the Longbridge plant of Rover, formerly the British Leyland group which was once a byword for all that was wrong in British industrial relations. The deal was symbolic of the growing co-operation between managements and unions in the world car industry.

The trend is likely to continue. Faced with the certainty that some car plants will be closed down by the end of the century and the possibility of a world recession, motor industry unions in most countries are not in the mood for long-lasting confrontation. They are more amenable to management plans for improving efficiency.

The productivity target to chase is Japan. It is, however, moving fast.

Japanese workers are among the most flexible in the world but the country's car industry is reaping the benefits of a large investment in automation. According to Mr Neal Doying, an analyst with Baring Securities, this should help it to draw away from its competitors after seeing the productivity gap close in recent years.

In many countries increased automation leads to conflict between management and unions because of the implications it has for jobs. In Japan job security is hardly an issue because of the country's shortage of labour; companies are looking for new workers rather than trying to shed them.

But the relative harmony between workers and employers in Japan goes much deeper than that. One factor is the system of wage bargaining in the country. While each company discusses pay rises with its workers, they take their cue from the railway workers pay negotiations and tend to give similar amounts each year.

Thus in this year's pay round Toyota agreed rises of 5.93 per cent against Nissan's 5.9 and Honda's 6.1.

Equally important is the incremental approach adopted by the Japanese to labour relations and other industrial issues. This is shown in negotiations on hours. Prompted by the Government, Japanese industry is looking at ways of slowly reducing the working hours of their employees.

The Japanese work longer hours than anyone else in the world except South Koreans. In this year's pay negotiations, Toyota agreed to union requests that annual hours (excluding overtime) be reduced from 1,968 to this year to 1,960 next. That may not seem much of a reduction but it is part of a continuing trend and compares with 1,984 in 1989.

In other countries hours reductions tend to take place over one or two years and are then put on the back burner for several years. Their impact is thus much greater when they happen. In the coming year's pay negotiations, European car manufacturers will be under enormous pressure to concede hours reductions negotiations following the success of engineering unions in West Germany and Britain in winning cuts.

This will make all the more difficult the task of winning productivity gains, something which manufacturers would look at as part and parcel of pay agreements in any year.

Car makers in Europe have a harder task in negotiations than their Japanese and US counterparts because of the proliferation of unions. Mr Tim Epps, personnel vice-president for General Motors Europe, said negotiations over the introduction of the three-shift working at the company's Zaragoza, Spain, plant, the first in Europe to achieve it, were complicated by there being four unions each with different political and industrial allegiances.

He was impressed by the effectiveness of the agreement once it was negotiated. He says the Zaragoza workforce unions seem to accept changes to the way their members work as normal.

Round-the-clock working is seen by manufacturers throughout Europe as a way of maximising plant investment and is likely to become increasingly common. It will supplement the significant changes that have been made to improving workers' effectiveness in Europe.

The changes vary from plant to plant. But common themes for all car manufacturers, whether in the US or Europe, are the increased use of team working, the increased flexibility of workers which goes with it, agreement to increase line speeds and a host of minor concessions such as the variation of workbreaks.

In one example of the latter, machine workers at GM's plant in Aspern, Austria, agreed to vary their lunch breaks so that when half were absent they would be covered by the other half, enabling machines to remain in operation.

In the US, Ford is reckoned to have made the most inroads into changing work practices. But other manufacturers have also made gains and, among volume producers, the US is probably closest to Japan in terms of quality and efficiency.

Inevitably one reason for recent improvements has been the advent of Japanese "transplants," that is the setting up of Japanese manufacturing plants. This has concentrated the minds of both management and workers on the issue of efficiency.

Ms Ann Knight, a motor industry analyst with Payne Webber, says one effect is that managers are much more prepared to give union representatives a role than they were a decade ago. "You can see it when they talk about unions," she says. "When they talk about changes in production processes they talk about unions' role in it, much more than they used to a few years ago.

"When managers give presentations, quite often unions and workers are present. They are not there in an antagonistic way. They are there as part of the planning process."

The results of this increasing co-operation still have to feed through in productivity gains, says Ms Knight.

In return for the increased co-operation, the UAW car workers' union is looking for increased job security for its members. This has been demonstrated in pay talks affecting the big three car manufacturers this year in which the UAW indicated from an early stage that it would be willing to moderate wage demands and back three shift production in exchange for "true job security."

Outside the big three, the union will be increasing its efforts to build its presence at plants where the Japanese are involved.

It has representational rights at the Mazda plant in Michigan, the Diamond Star (Mitsubishi, Chrysler joint venture) plant in Illinois and the Nummi (Toyota, General Motors) plant in California but failed last year to win the approval from workers at Nissan's plant in Tennessee for representation rights there. It is likely to return for another vote.

PROFILE: Carl Hahn

Sights set on East Germany

FOR NEARLY nine years, Carl Hahn has headed Volkswagen, the West German car company that is now energetically moving into East Germany after a decade in which it has experienced some striking triumphs and some embarrassing reverses of fortune.

Hahn: contract speculation

More than any other big West German industrial group – from October 3, the day of unity, it will no longer be correct to talk of East and West German companies – VW has grasped the challenge of East Germany with vigour.

Mr Hahn's own background and VW's location near the border have given a special impetus to the venture. But East Germany is not the only challenge facing Mr Hahn and VW. As its recent results have shown, it still has a cost problem at a time when German exporters are feeling the impact of the high D-Mark and is vulnerable to setbacks in its widely spread markets, notably South America. Its ambitions in China have been hampered by the Peking Government's clamp down on student demonstrators and the outrage this provoked.

So firmly has Mr Hahn stamped his personality on VW that it seems hard to imagine the executive floor at Wolfsburg's headquarters without him. But the 64-year old Mr Hahn's contract runs out at the end of 1991, so talk about his likely successor has begun in earnest. It is possible that his contract will be lengthened, especially in view of the DM5bn investment under way in East Germany. VW has given away no clues as to whether this will happen.

Asked about this recently, Mr Hahn replied with Delphic ambiguity: "Contracts can be extended, but life cannot." But whether or not Mr Hahn stays, the question of who will succeed him is being more eagerly discussed as he approaches the age of 65 next July.

Again, VW is giving no hints as to which candidates have the best chance, or even on who could be considered. Two names which stand out most prominently in this context are Mr Daniel Goeudevert, 48, the former head of Ford-Werke (Ford Motor's West German operation) who joined the VW board last year, and Mr Helmut Werner, 54, who left the Continental tyre producer three years ago to become the Daimler-Benz director responsible for trucks.

Mr Goeudevert is a good communicator who has original ideas about management and the transport needs of the future. He is French, which would certainly add an original twist. Mr Werner is also adept at projecting himself and his ideas and was a successful manager at Continental.

Here, the story becomes a little incestuous. Mr Werner succeeded Mr Hahn as the head of Continental – it was then called Continental Gummi-Werke – and Mr Hahn wanted him later to join the VW group; but Mr Werner was tempted on to the Daimler board.

One important element, therefore, is what is likely to happen at Daimler when Mr Edzard Reuter, the present chief executive, retires. Mr Werner would clearly have a good chance of becoming the head of the group's big Mercedes-Benz car and truck subsidiary when Mr Werner Niefer steps down – both Mr Reuter and Mr Niefer are 62 – and the job of heading the Daimler group is obviously a prize to be striven for.

The same can be said of Mr Werner about his decision to join Daimler as of Mr Goeudevert on joining VW: someone who was chief executive at his previous company must clearly aspire to the same position at his new one, even though the dimension is a lot bigger.

However, other names also crop up in the VW chief executive stakes, most notably those of Mr Dieter Ullsperger, the finance director who was with both Ford-Werke and Klöckner-Humboldt-Deutz, the engineering company, and Mr Martin Posth, in charge of labour relations. Both men are in their mid-40s.

Also included in the speculation, which has filled many columns of the German business press, is Mr Ferdinand Piëch, 53, who heads Audi, VW's up-market car subsidiary. What sort of man will be the successful candidate be replacing?

Mr Hahn is a person who has plenty of ideas and is keen to talk about them. He exudes a cool, sovereign self-confidence, even at times when most people would be running for cover. One of the worst episodes during his period in office was the foreign exchange scandal which produced losses of well over DM400m in 1987 and temporarily overshadowed VW's efforts to develop its long-term global strategy.

Mr Hahn's US experience in VW's early Beetle days certainly added a strong international flavour to his career. His father was Austrian, his wife is American, and he was educated in Germany, England, Switzerland, and France. Mr Hahn was born in Chemnitz, East Germany, where his father was a manager in the car industry. Thus it is not surprising that Mr Hahn has such a strong emotional, as well as professional, interest in doing in East Germany.

He also looks beyond to the rest of eastern Europe, where he sees promising long-term growth. Hence VW's talks on possible links with Skoda of Czechoslovakia. And hence Mr Hahn's possible interest in staying on a little longer, to oversee the drive eastwards. It will be as interesting to see whether this happens as to observe who is chosen to succeed him.

Andrew Fisher,
Frankfurt

Are electronics pointing the way? **Jeff Daniels** expresses doubts

Keep your eyes on the road

RECENT motor shows have not lacked concept cars with, among other features, suitably advanced-looking cockpit layouts making extensive use of multicoloured electronics. In such machines drivers are kept informed of the status of each important part of their car, of their exact position and the best route to destination, and much else besides.

In some quarters this has been taken as a pointer to the future, but it is not necessarily so. Colourful and complex displays amuse the motor show crowds but quite apart from the question of cost, serious problems arise in their practical application. Ergonomists point out that the only proper place for the driver's eyes is the road ahead; every time they are re-focused on something within the car there is potential danger.

A fair amount of work has been carried out on windscreen projected head-up and virtual-image displays which reduce the amount of re-focusing which the eyes have to perform. A car on a busy road is not like an aircraft, which unless it is flying at low level is unlikely to bump into anything while the pilot briefly attends to re-tuning the radio or re-programming the navigational computer (and in most cases, there are two pilots, to share the workload).

If there is an answer to presenting the 1990s car driver with the information he needs, it is not to make the car interior resemble an aircraft cockpit. From the ergonomic point of view it needs to be as simple as possible.

There is a conflict here between the ergonomist and the salesman. Simple interiors are down-market. One of the first things done to any car in the creation of an up-market version is to fit it with extra instruments such as a rev counter, an oil pressure gauge or a voltmeter. Ergonomically superior instrument and control layouts, such as ergonomically superior seats, often make a bad impression in the showroom.

The task of the pragmatic designer is therefore to create an attractive-looking layout which presents the most important information as clearly as possible while allowing the driver to ignore all the rest.

The question remains: what exactly is the most important information? For almost as long as the car has been with us, it has been the answers to two questions: How fast am I going? How much fuel do I have left? Beyond this, designers have sought to inform the driver of technical problems with the vehicle, such as coolant overheating, low oil pressure or lack of electrical charge.

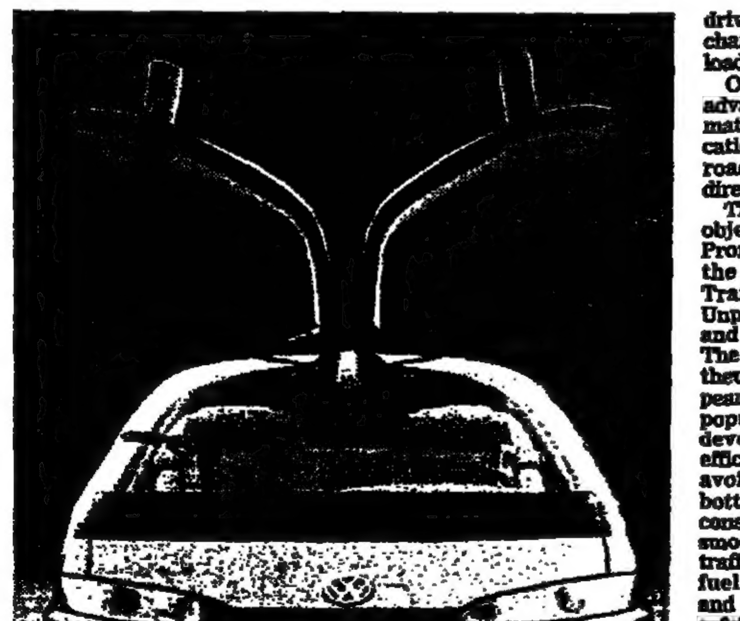
As cars have become more complicated, the range of possible technical problems has extended and the number of warning lights now usually extends into double figures – an ergonomic problem in its own right. Even so, some safety critical monitoring systems, notably one which is capable of checking tyre pressures, are still some way from finding wide application.

The surge of electronic application has multiplied the amount of information which might conceivably be made available to the driver. In-car entertainment systems have become more versatile but more complex. Communications equipment has well and truly arrived; the up-market car is now undressed without its mobile telephone. Competing technologies such as satellite or radio beacon position fixing, magnetic flux or vehicle motion based dead-reckoning, exist to permit automatic navigation.

Last but not least, there is the prospect of car-to-car and car-to-roadside communication to improve safety and speed traffic flow.

Navigation cannot be truly automatic unless the car has some form of autopilot. This concept which is not entirely far fetched but calls for a great deal more development to become practical. The navigation systems being offered depend on an interface between system and driver, and it is the form of that interface which is causing headaches.

The most obvious way to present navigation information is in the form of a map. The equally obvious drawback is that many people cannot read a decently printed map spread out on the kitchen table, let alone an inevitably small and lower-definition electronic display while they are trying to drive a car. Some engineers, recognising this, have sought to present the information in simplified form, with advice to turn left or right or proceed directly ahead. This system can work well on motorway networks or in modern cities with grid street layouts but it can be defeated by more ancient and complex junctions such as Piccadilly Circus or



VWs concept car: the Futura

the Place de la Republique. One has only to watch an expert navigator direct a driver through such bottlenecks to realise what the interface involves.

At the very least, automatic navigation in dense urban environments calls for an extensive database covering one-way streets and similar information.

There is disagreement even on the best way to present such basic navigation information as left, right or continue. Some systems use a simple visual display; others depend on audio information, although there is some evidence that drivers block out their audio channel when they are heavily loaded with visual information.

One promising line of advance concerns traffic information culled from communication between the car and a roadside data network, or directly between vehicles.

This is one of the principal objects of the pan-European Prometheus (Programme for the Movement of European Traffic with Efficiency and Unparallelled Safety) research and development programme. The basic premise of Prometheus is that since the European road network is heavily populated, efforts should be devoted to making the most efficient possible use of it by avoiding traffic conflicts and bottlenecks. This brings the considerable extra benefit that smoother and more continuous traffic flow should save time, fuel and exhaust emissions, and effect an improvement in safety.

Prometheus embraces navigation and conflict-avoidance technology, and is aimed at developing various types of communications link, together with the in-car systems needed to exploit the communicated data. An initial division is made between car-to-environment, car-to-car and car-to-driver communication.

The first category covers those systems which can warn of congestion and offer navigation advice; the second is more concerned with safety-related issues such as the maintenance of a safe (but efficient minimum) distance between vehicles.

The third category is the difficult one of the information interface with the driver.

Some aspects of the programme, however, involve bypassing the driver. One logical outcome of inter-vehicular communication, for example, is a road train consisting of cars travelling very close together in autopilot mode, depending for safety on obedience to carefully constructed rules of behaviour and on immediate and intimate knowledge of how other cars in the train are behaving.

Such a concept may seem familiar to devotees of the M25 and indeed it has the same underlying object of packing as many vehicles as possible into the available road space.

In the case of the Prometheus programme, however, it involves very small separations – engineers who have run trials on closed test tracks talk of one metre space between vehicles at a speed of

There is a conflict between the ergonomist and the salesman

100km/hour – together with levels of safety which M25 users all too often fail to demonstrate.

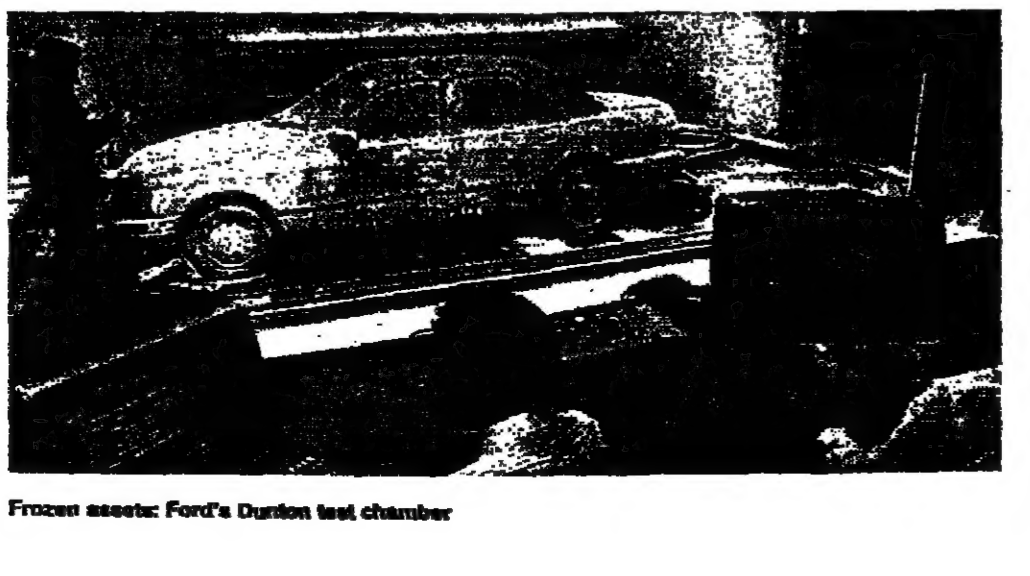
Such projects require the ability to control the vehicle's direction as well as its speed. The technology of automatic speed control is well established (many up-market cars are fitted with cruise control) and systems involving at least limited-authority automatic steering, usually based on the ability to optically track a roadside white line, have also been demonstrated.

As for the actual communication between participating vehicles, Prometheus engineers point to one saving grace: the closer the vehicles are together, the easier communication becomes.

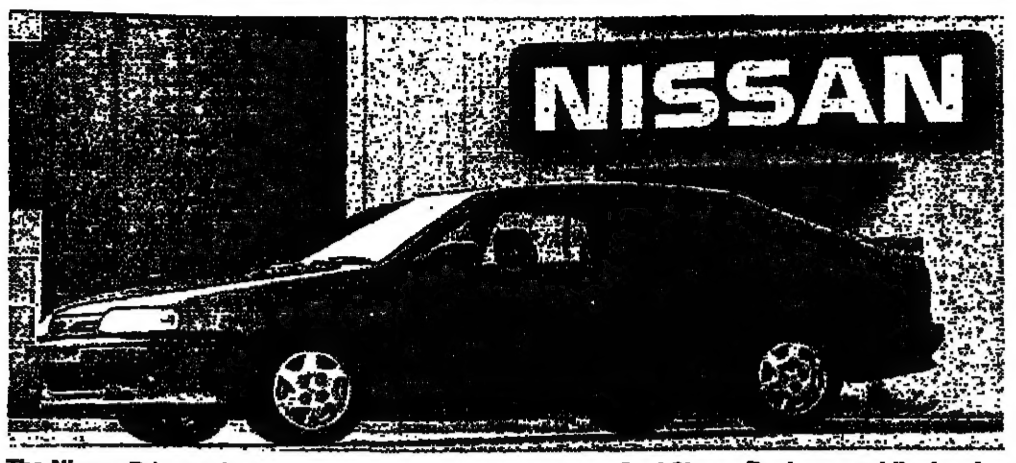
What really exercises development teams are the problems of allowing cars to leave or join a train at the appropriate motorway junction, for example.

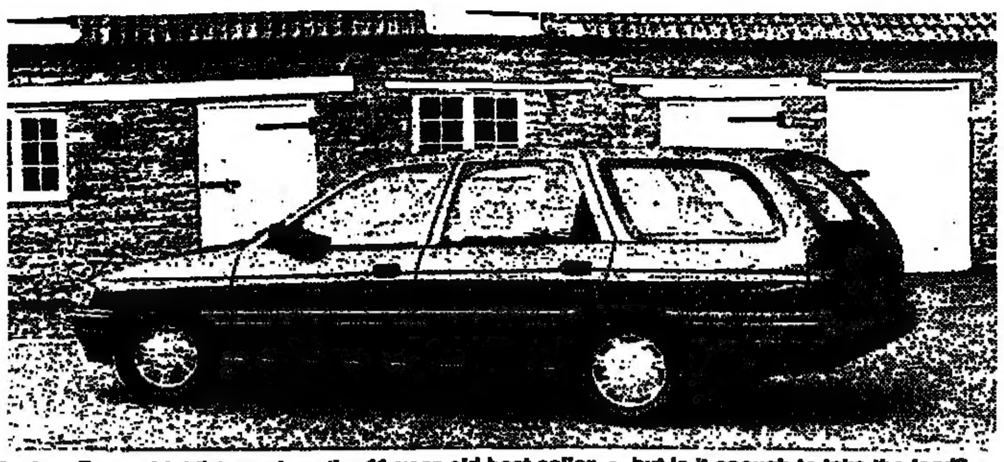
The safety considerations implicit in such systems obviously need careful study. Like aerospace systems, they must be carefully engineered so that no single failure results in disaster.

If such problems can be solved, and the general engineering consensus is that they will be, then the multicoloured electronic cockpit may finally come into its own – to keep the driver entertained while the car and its internal systems do the work.



Frozen assets: Ford's Dunton test chamber





The Nissan Primera (left) is seen as a potential rival to the Ford Sierra. Ford, meanwhile, has launched an Escort (right) to replace the 11-year-old best seller – but is it enough to take the lead?

Stuart Marshall reviews some of the latest models

Japanese break out from their bridgehead

ONE LESSON to be drawn from the cars that have been introduced this year and will continue to make an appearance in 1991, it is that the Japanese are breaking out of their bridgehead.

Until this year the Japanese manufacturers were content to make cars that had been taking an ever growing share of the supermini, small/medium and medium size classes – a share which was held back by quotas and gentlemen's agreements in many European markets. Plus a near dominance of the niche market for recreational 4x4 vehicles.

Within the last year, three outstanding cars from Japan have jolted the motor industries of Europe and the US. They are the Toyota-built Lexus; the Nissan 300ZX and Honda NSX.

With the Lexus LS400, Toyota spared no expense to create a luxury car that would beat the European quality manufacturers at their own game.

It has a 4 litre, V8 engine to rival the BMW 7 Series, Mercedes S-Class and Jaguar 4 litre saloon and is widely acknowledged as the quietest and most refined luxury executive car in the world.

The Nissan equivalent, the 4.5 litre Infiniti, has not made the same impact as Lexus in the US and is not yet sold in Europe. But Nissan, with the 300ZX coupe – 3 litre, V6 engined, with twin turbochargers – is seducing Porsche buyers because it offers the same kind of motoring at far less cost.

Latest challenger in the supercar end of the market is the Honda NSX, a technological *tour de force*, mainly constructed from aluminium alloy and as easy to drive as it is fast.

Others are on their way. Next month, at Paris Mondial de l'Automobile, Mitsubishi will unveil a high performing luxury car bristling with new technology. At the other end of the scale, Nissan's Primera, successor to the Bluebird and a potential rival for Ford's Sierra and the Vauxhall Cavalier (Opel Vectra) is now in production at Washington, north-east England. It is making its debut at the Birmingham Motor Show.

In the small/medium class, Ford has just replaced the best-selling, 11-year-old Escort hatchbacks and estate cars and their Orion saloon derivatives with new models.

They could be said to have caught up with the competition in most respects but, by common consent, have not taken a lead.

Early next year Nissan's new Escort-sized Sunny will appear and, for sheer technology, seems likely to put the new Ford in the shade.

If one needs a reminder of the Japanese motor industry's strength, it is that the Honda Accord (admittedly, produced in an American transplant) was the best selling car in the US last year.

European manufacturers have not been backward in producing new models in the last year and have some more important announcements to make in 1991, starting at the Geneva salon in March.

Audi's V8 has become the world's first luxury car to offer four-wheel drive and automatic transmission as standard, plus Procon-Ten.

This is a safety system that, in a severe collision, instantly tightens the front seatbelts on their wearers and retracts the steering column.

This reduces the risk of the driver sustaining facial injury. All Audi models now have Procon-Ten as standard.

BMW's long-awaited 850i, a 5 litre, V12 engined successor to the veteran 6 Series coupes, went on the market this year. Also new from BMW this autumn are multi-valve engines for 5 Series cars.

The replacement for the smallest BMW, the 3 Series, is likely to appear at Geneva in March.

Citroën, which has sold 100,000 XMs, the European Car of the Year, since its introduction last summer, will add an XM estate car and an automatic-transmission turbo-diesel next year.

Even before the Gulf crisis brought steeply rising fuel prices, diesel cars were gaining market share in Europe because of their environmental friendliness – their carbon dioxide greenhouse gas emissions are far lower than those of equivalent petrol-engined cars.

Rover has introduced an excellent turbo-diesel version of the 800 saloon with an Italian-made VM engine to compete with such executive class diesel cars as BMW, Mercedes, Citroën and Peugeot.

Direct-injection diesel-engined cars (confined at present to the Rover Montego, Land Rover Discovery, Audi 100 and Fiat Croma) can be expected to proliferate in the next year or two as electronic injection systems become more widely available. Their engines are even more economical than the indirect injection diesels almost universally used in cars.

The Tempra (a booted development of the Tipo hatchback) and its near relative, the Lancia Dedra, demonstrate Fiat's desire to move up-market in the mid-size sector. The luxurious Lancia Thema station wagon becomes generally available early next year.

The smallest engined version of Jaguar's classic XJ6 saloon is of 3.2 litres capacity, bringing a welcome increase in performance with much improved driveability.

Mercedes-Benz has reintroduced a 1.8 litre engined car for the first time in 20 years but the big Mercedes all the other makers want to see will not be unveiled until 1991. This is the successor to the veteran S-Class, still regarded as a benchmark among senior management cars.

Renault's Clio, eventual successor to the apparently everlasting Renault 5, is on sale in some mainland European markets but will not reach Britain until early next year.

It focuses on refinement. Renault has got the message that a growing number of buyers of small cars expect the same standards of comfort and quietness as are enjoyed by owners and users of executive-style cars.

They want the option of former big-car-only features such as power assisted steering, automatic transmission and air conditioning.

As roads become more crowded, being comfortable in a car is of greater value to many buyers than knowing it has best-in-class acceleration and a licence-losing maximum speed.

In the hot summers most of Europe has had for the last three years, air conditioning has been a boon.

It is safe to predict it will rapidly spread down market to medium and small cars and be demanded by even more executive-class car users. Once its benefits have been enjoyed, there is no going back – the same can be said of automatic transmission and power steering.

Saab's latest 9000 executive saloons and hatchbacks, fitted with a new 2.3 litre, 4 cylinder engine a year ago, are available with turbo-charging. This is not just for extra performance but for flexibility rivalling that of multi-cylinder engined cars.

The beautiful Vauxhall (Opel) Calibra has re-established the European production-saloon based coupe, a niche market left largely vacant since Ford stopped producing its evergreen and extraordinarily successful Capri. Calibra is available with a four-wheel drive system first seen in the latest Cavalier (Opel Vectra).

An extraordinary 32 valve, V8 engined version of the Vauxhall Carlton (Opel Omega) with a claimed top speed of 180 mph (290 kmh) has been introduced as a limited edition. The Opel Kadet/Vauxhall Astra replacement is due at the end of 1991.

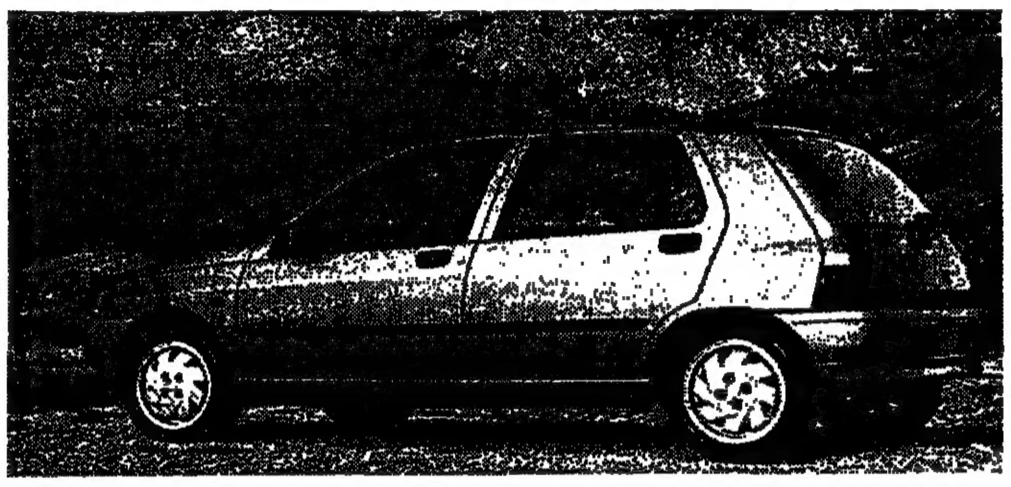
Volkswagen's smallest car, the Polo, has been substantially face lifted for 1991 but the new Volkswagen Golf is unlikely to be on the market until early 1992 after a probable first appearance at Frankfurt Show in September 1991.

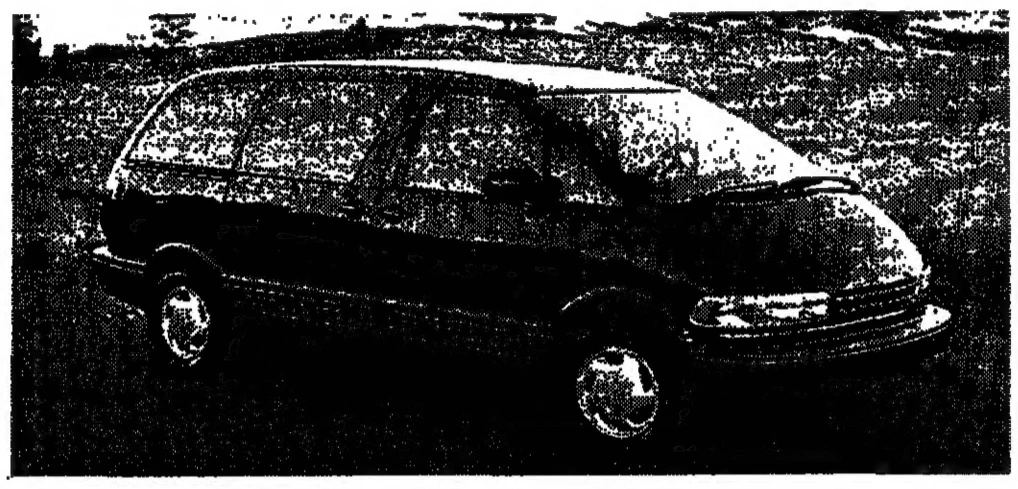
Volvo has moved up-market with a new car based on the 760, re-engined with a 3 litre, in-line 6 cylinder with multiple valves.

One kind of car that will become widely available in Europe and even more popular than it is at present in the US is the MPV (for multi purpose vehicle).

With a one box body outline, or at any rate one with a far smaller, less protruding bonnet than a conventional estate car, it offers a lot of extra interior room without taking up any more space on the road.

Renault's Espace was the first of its kind in Europe. Toyota's mid-mounted, underfloor engined Previa, unveiled at Tokyo Show last November and on sale in Europe and the US, is the first of many new MPVs that will compete for sales in a growing sector.





Renault has finally replaced the Renault 5 with the Clio (left) which comes to the UK early next year. In Europe, Renault led the way in MPVs, Toyota's challenger is the Previa (right)